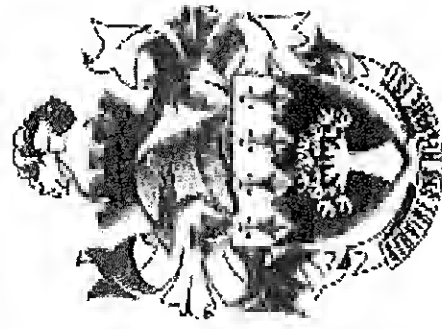


KHAI-MA MUNICIPALITY



ANNUAL REPORT

2010/2011

CHAPTER 1: INTRODUCTION AND OVERVIEW

1.1	Foreword by Mayor	4
1.2	Foreword by Municipal Manager	5
1.3	Overview of the Municipality	6
1.4	Executive Summary	7

CHAPTER 2: PERFORMANCE HIGHLIGHTS

2.1	Narrative of Services	
2.1.1	Basic Services	8 - 9
2.1.2	Free basic services	10
2.1.3	Backlogs on Basic Services	11
2.2	Infrastructure Services	11- 13
2.3	Social Services	13
2.4	Local Economic Development	14
2.5	Governance	14
2.6	Spatial Development	14

CHAPTER 3: HUMAN RESOURCE AND OTHER ORGANISATIONAL MANAGEMENT

3.1	Composition of Council	15
3.2	Numbers of staff per function	15
3.3	Skills of level of education	16
3.4	Training course attend	16
3.5	Trends on total expenditure over the last 3 to 5 years compared to total budget	16
3.6	Number and name of pension fund and medical aid funds including of an assessment of future risks or liabilities	16
3.7	Arrears (outstanding monies) owed to municipality	17

CHAPTER 4: AUDITED STATEMENTS AND RELATED FINANCIAL
INFORMATION

4.1	Policies Implemented	18
4.2	Budget to Actual Comparison	18
4.3	Conditional and other Grants	19
Annexure B	Financial statements	
Annexure C	Audit Report	
Annexure D	MIG Annual Report	

CHAPTER 1: INTRODUCTION AND OVERVIEW

1.1 Foreword by Mayor

It is my privilege as first citizen to have a look into the past financial year with its successes and failures. It is clear that this municipality did not reach its targets and has a lot more to do to satisfy the needs of its citizens.

Service delivery are delivered in all communities, but is still a big challenge since more households need basic services such as clean water, sanitation, electricity and sheltering. Pofadder Bulk Water, Witbank Bulk Water, Project Nala and the 384 houses are projects to provide to these needs and also create few temporary jobs for those in need. However, the current housing project which commenced during 2008 has its delays and the project really need a boost. The vehicle fleet of the municipality does not contribute much to the Municipality's success in service delivery and need to be upgraded. Onseepkans and Witbank cannot rejoice in the lack of electricity and access roads.

The lack of skills is another contributing factor due to the absence of expertise. There are some vacancies on the organogram to be filled in order to ensure improved service delivery. We look forward to appoint capable staff in the vacancies to help us reaching our development goals and objectives.

The HIV/ Aids epidemic kills our inhabitants and it is getting worse. New health and HIV/ AIDS committees have to be established. Poverty caused by joblessness and a lack of income, together with substance abuse and violence against women and children the lack of sport and recreation are threats to our communities and especially to future of the children which will be the adults of tomorrow. These factors promote crime and many people end up in jail. Fortunately, the food gardens will be a relief to residents since one (Pofadder) is already operational. The establishment of community safety forums has to be accelerated to address these challenges. Hopefully, the solar projects and the social and labour plans of the mining sector in our region will help us in this regard by creating sustainable jobs. We still look forward to the commencing of mining activities at Gamsberg.

The new elected council has a short term to learn, but has to put shoulder to the wheel to address the citizen's needs. Dedication and time spending will ensure effectiveness and a successful local government. Being visible in their wards will promote full public participation and enhance support to the government programmes.

To all fellow citizens, thank you for your support and co- operation. May you enjoy a prosperous 2012 with a dramatic change in social life with economic wealth? May many dreams come true through the different programmes of the government sector together with all the contributors in the private sector?

Together we can do more.

1.2 Overview by Municipal Manager

The 2010/11 Financial Year has been a good year for Khâi-Ma Municipality, due to the fact that we again received an unqualified audit with findings, bringing us closer to a clean audit.

We are tirelessly working in ensuring that basic services are delivered to all in the Khâi-Ma Municipal Area. The areas we identified will indeed ensure that we deliver on our mandate, therefore we identified the following areas for improvement and we already implemented on the following:

- **Creating a secure and safe working environment;**
- **Building partnerships with stakeholders;**
- **Prioritise business plans and**
- **Building better relations with our staff and trade unions.**

Challenges still prevail, such as developing a set of by-laws for the municipality, making the IDP a document, which will include the serious backlogs of the municipality with regard to basic services and also to implement the LED strategy in creating sustainable job opportunities for the people in the jurisdiction of Khâi-Ma Municipality. More needs to be done in fast tracking real opportunities which will ensure sustainable jobs. More focus must be put on Alternative Energy Generation opportunities, Agri opportunities for Small Farmers, in consultation with the Commercial Farmers Sector as well as the beneficiation of our mineral wealth.

The taking over of Black Mountain Mine unlock other opportunities to put this area on the map and we must ensure that we work closely with them to make their vision a reality because it will put this area on the doorstep of real growth which can benefit us all.

Education is the key to success and we must explore every opportunity to see what is necessary to help us in building our future. A focussed approach is necessary in keeping our dreams for a better future alive.

I thank the Mayor and the Councillors as well as the previous Councillors for their support. I also thank the Management Team and the staff of the municipality for their commitment in an ever changing environment. The message is clear more still needs to be done.

Finally, the Khâi-Ma Municipalities ratepayers and other stakeholders, I thank you.

Irwin Frederick Januarie

1.3 OVERVIEW OF THE MUNICIPALITY

Khai- Ma Municipality is a category B- municipality established in terms of section of the Local Government: Municipal Structures Act, 1998, Act 117 of 1998.

The municipality is situated between S29°08'08, 7" en E19°23'27, 1". The seat, Pofadder is situated about 220 kilometres west of Upington and 165 kilometres east of Springbok.

Nabour municipalities are Nama Khoi Municipality (west), Hantam Municipality (south) and Kheib Gariib (east) with the Namibian Border, the Oranje River (north).

The other towns of the Municipality are: Aggeneys (Mining Town)- 68 km (west), Pella, 36 km (Northwest), Onseepkans, 50 km (North), and Witbank, 100 Km (North West).

Farming settlements are Dwagga Soutpan, Vrugbaar, Raap- en- Skraap and Klein Pella

The total households are 2159 (Two Thousand One Hundred and Fifty Nine and include formal, informal and poor households- no records of informal houses exist. Poor households amount to 77 % (1662) of the total households.

The main economic activities are mining and agriculture (livestock farming and irrigation)

The powers and functions are:

Powers Executed by the Municipality	Powers executed by NDM and Govt Departments on behalf of the Municipality
Air Pollution	Traffic and Parking
Building regulations	Environmental Health Services
Electricity distribution	Trading Regulations
Municipal Development	Public Nuisance
Storm water Management	Control over Institutions selling Liquor to the public
Water and Sanitation Services	Markets
Cemeteries	Noise Pollution
Cleaning Services	Local Amenities
Local Sport Facilities	
Municipal Abattoirs	
Municipal Parks and Recreation	
Municipal Roads	
Public Places	
Waste Removal and Dumping	
Street Lighting	
Disaster Management	
Fire Fighting	
Tourism	

1.4 Executive Summary

Main objectives

- (i) Provision of sustainable services to the inhabitants and maintain existing resources;
- (ii) Develop Khâi- ma Municipality as institution through transformation and capacity building;
- (iii) Promotion of local economic development through poverty alleviation, job creation, empowerment of the previous disadvantage people with capacity building in business skills and establishment of a climate for investment.
- (iv) Promote Sound financial management and Viability

Development Priorities

- (i) Services Delivery
- (ii) Institutional Development and Transformation
- (iii) Local Economic Development
- (iv) Financial management and Viability
- (v) Good Governance and Public Participation

Vision

Khâi-Ma Municipality's vision is to ensure effective and high quality services to all inhabitants, improve the living standard of all inhabitants and the establishment of a favourable climate for investment to accomplish economic development;

Mission

Khâi- Ma Municipality will serve the communities in its jurisdiction by rendering affordable services and sustainable economic development through good, transparent local government and aggressive implementation of the Bathos Pele Principles.

CHAPTER 2: PERFORMANCE HIGHLIGHTS AND CHALLENGES

2.1 Narrative of Services

2.1.1 Basic Services

Basic Services were rendered to households at all communities except in the case of Aggeneys which is a mining town and the mining company is currently responsible to deliver services to the community and Witbank.

The total consumers to benefit from rendering of basic services amount to

2226 (Two Thousand Two Hundred Twenty Six) consisting out of:

Households	2159
Businesses	52
Hospitals and clinics	6
Schools	7
Old age Homes and Children homes	2

(a) Water

All households have access to potable water.

- 181 (one hundred eighty One) new consumers are connected to networks on application.
- The water supplying systems at Onseepkans and Witbank need to be upgraded, since the households, which are situated higher struggle to get water especially in the summer time.
- Water consumption is in general high due to lack of proper control, default meters and defective toilets systems. Households which are registered as indigents consume more than the quantity of 6 kilolitres with no limits.
- Water restrictions have to be established to ensure proper management .
- This municipality participation in the Blue Drop System is poor and staff needs intensive training.
- The quality of the potable water is still a concern.

(b) Sanitation

- An estimated volume of 3472 cm³ refuse are removed from all consumers.
- Refuse removal is always a challenge.

(c) Waste Water

- Only two (2) sewerage trucks were utilised to render this services which will grow within the next financial year.
- Since some septic tanks need to be emptied daily, this service needs to

be upgraded at Pofadder and Onseepkans by extending the existing sewerage systems. However, an application submitted to MIG was unsuccessful for Pofadder Waste Water Supply.

- The oxidation pounds need to be fenced for cleaner and safer service. Currently the pounds are open for children to swim in it and goats of emerging farmers are also found into it.
- No record was kept of the waste water removed since the trucks and the sewerage pounds do not have bulk meters.

(d) Electricity

- All the inhabitants except for the community of Witbank had access to electricity.
- The capacity of the power supply is still a challenge at Onseepkans.
- The high mast lights cannot be activated due to the low capacity.
- Eskom promised for the past three years to upgrade the supply, but did not fulfil its promise yet.

The tables below show how the different communities benefit from the services rendered and figures of provision and losses.

(i) Level and Standard of basic Services

Community	Households %	
	High	Poor
Pofadder	90	10
Pella	90	10
Onseepkans	80	20
Witbank	80	20
Aggeneys	Black Mountain as mining company provides all basic services to employees and their families.	

(ii) Provision of services and Losses

Services	Purchases	Sales	Losses	% losses
Water	759 746	640 920	109,300	16
Electricity	4 642 921	4,039,293	603 628	13

2.1.2 Free Basic Services

Free Basic Services were rendered to all indigents in the municipal jurisdiction regulated by an adopted indigent policy, which provided support for households with an monthly income less than the total sum of two state grants.

The indigents amount up to 77 percent of all consumers.

(i) Free Basic Water

The limit for free basic water is 6 kilolitres.

Community	Total
Pofadder	637
Pella	541
Onseepkans	348
Witbank	80

(ii) Free Basic Electricity

The limit for free basic electricity is equal to 50 kW.

Community	Total
Pofadder	620
Pella	629
Onseepkans	261
Witbank	0
Total	1510

No free basic energy or alternative energy is provided to the Witbank community and the matter must be addressed.

(iii) Free Basic Refuse Removal

Community	Total
Pofadder	637
Pella	541
Onseepkans	348
Witbank	80
Total	1606

Note: The need for sanitation is growing. Consumers do not favour the dry system complaining that the structures have to be moved around on their stand as it get full and also about bad smell, especially in the spring and summer seasons. They prefer and want rather flush systems. It is possible, but cannot be confirmed that new consumers use buckets awaiting for toilet facilities.

2.1.3 Backlog on Basic Services

Community		Water	Electricity	Sanitation	Toilets Buckets	Refuse Removal	Housing
Pofadder Pella		48	50	48	0	0	205
		48	0	103	0	0	463
Onseepekans	R.K Sending	7	35	20	0	0	86
	Viljoensdraai	13	4	14	0	0	21
	Melkbosrand	20	14	11	0	0	89
Witbank		17	77	17	0	77	86
Aggeneys		0	0	0	0	0	
		153	360	213	0	77	950

2.2 Infrastructure Services

(i) Water

- The Pofadder Bulk Water Project (upgrading of the Pella- Pofadder Pipeline) is 64 % completed.
- 4 (four) breakdowns occurred on Pofadder network and were restored immediately.
- Supply of water to the inhabitants of Viljoensdraai need to be upgraded since the inhabitants struggle to get sufficient water timeously.
- The water system at Witbank could not be utilized for the supply of water due to damages caused by floods during January- February 2011 and water a tanker were utilised for about six months from the river to the purification system during the financial year.

Challenges

- ★ Storage and alternative water resources;
- ★ Improvement on blue drop program.

(ii) Electricity

- New Connections 2
- Replacements 49
- The reticulation network at Pofadder is old and need to be upgraded.
- The capacity of the power supply at Onseepekans is very low and causes that high mast lights is not functioning.
- No new connections for consumers at Pofadder, Pella and Onseepekans were done on application.
- ESCOM supply electricity at Pella and Onseepekans
- The delay in the housing project cause delay in provision of electricity to the inhabitants of Pofadder, especially since it was provided by NERSA.

Challenges

- ★ Witbank still need access to electricity;
- ★ Upgrading of power supply at Onseepekans and The reticulation network at Pofadder.

- (i) Sanitation
- Licensed Landfill sites = Nil
 - The fences of the oxidations dams and landfill sites at Pofadder, Pella and Onseepkans were removed by inhabitants which creates pollution of the environment near the sites. In the case of Pofadder waste is dumped at any place near the site and even on streets corners and public places.
- Challenges
- ★ A Landfill site for Witbank;
 - ★ Rehabilitation of landfill sites at Pofadder, Pella and Onseepkans
 - ★ Fencing the sites;
 - ★ Licensing the sites
 - ★ Clean up of areas close to the sites
 - ★ Upgrading of the sewerage systems at Pofadder and Onseepkans;
 - ★ Participation in Green drop programme
- (iv) Streets, Parks and Sport and Recreation facilities
- The tarred streets at Pofadder were partly resealed- Pula Nala
 - Storm water canal- Pofadder is extended
 - The ablution blocks at the Pella Sport facilities were renovated through Blacks Mountain's Social and Labour Plan.
- Challenges
- ★ Curbs for the existing tarred streets;
 - ★ To provide swimming facilities for other communities;
 - ★ Upgrading of Sport and recreation Facilities
- (v) Housing
- Pofadder - 1 (one) house (16 days of Activism)
 - The project of 384 houses (Pofadder- 100; Pella- 100 and Onseepkans 184) could not been built, delayed due non- to challenges in appointing the supplier and contractor.
 - Pofadder- 6,
Pella - 23
- The backlog (as per IDP) which amount up to 950 houses increased.
- (vi) Cemeteries
- Cemeteries at the various communities are mostly under the management of the churches within the communities except one at Pofadder, which is under the municipality's control. It is maintained regularly.
- (vii) Commonage Management
- The size of commonage land consist an area equal to 145 350 hectares remain unchanged:
- Challenges
- ★ Management Plans for commonage

- ★ Development Plans
- ★ Establishment of Commonage committees
- ★ Pasture Agreements between the Municipality and emerging farmers
- ★ Collection of Revenue
- ★ Maintenance of Infrastructure
- ★ Drought Relief for farmers

2.3 Social Services

Challenges

- (i) Health
- Establishment and functionality of local health committees
 - Establishment of a Khâi- Ma AIDS Council
 - VCT Counsellors at clinics delivered services to the inhabitants.
 - Representatives on the District Aids Council
- (iii) Moral Regeneration
Moral Regeneration is still a big challenge for this municipality.
- (iv) Library Services
Library services 4 (Pofadder, Pella, Aggeneys and Onseepkans)
- Challenges
- ★ Library services for Witbank.
- Temporary staff was appointed to assist existing staff with service delivery;
- (iv) Sport and Recreation
- Sport Grounds 4 (Pofadder, Pella and Onseepkans, Witbank)
Community Centre 3 (Pofadder, Pella and Onseepkans)
- Challenges
- ★ Sport forums needs to be established to;
 - ★ Sport facilities needs to be upgraded;
 - ★ Safeguarding of assets
 - ★ Community halls for the other township at Onseepkans, Melkbosrand and Sending and as well as Witbank are needs;
- (vi) Crime Prevention
Council supported crime prevention and ward councillors represent the council on the community Police Forums in all communities.
- Challenge
- ★ Contribution to Implementation of the Crime prevention plan

2.4. Local Economic Development

Namakwa District started a process to develop an LED Strategy for all municipalities in district.

Job Creation: Figures not available due to absence of relevant officials to be added on Monday, 30 January 2012

Project	Total	Women	Youth	Disable
Pofadder Alien Plants	92			0
Project Nala	66	34		0
Pofadder Bulk Water	22	0		
Khai- ma 184 Houses	89	9		0

Challenges

- ★ Development of LED strategy
- ★ Development of Tourism Plan
- ★ Job creation and Poverty Alleviation

2.5 Governance

- Council meetings
 - Ordinary 4
 - Special 9
- Council meets the People- Nil
- Ward committees- Not fully functional
- Internal Audit Unit- Yes
- Audit committee- No
- Performance Management System No

2.6 Spatial Development

A Spatial Development Framework was adopted by council.

CHAPTER 3: HUMAN RESOURCE AND OTHER ORGANISATIONAL MANAGEMENT

3.1 Composition of Council

3.1.1 Before May 2011 Elections

Political Party	Wards	Propositional
ANC	3	2
Democratic Alliance	1	0
Independent Democrats	0	1

3.1.2 After May 2011 Elections

Political Party	Wards	Propositional
ANC	4	0
COPE	0	2
Democratic Alliance	0	1

3.2 Numbers of staff per function

Function	Total of Staff		
	Positions filled		Vacancies
	Permanent	Temporary	
Office Of the Mayor	1	0	
Management	3	0	1
Finance	12	1	1
Corporate Service	16	4	2
Infrastructure Services	26		4
Local Economic Development	2	0	1
	61	5	9

❖	New Appointments	:	11
❖	Retirements	:	1
❖	Resignations	:	0
❖	Dismissals	:	0
❖	Labour Matters	:	1

Organogram See Annexure A

3.3 Skills of level of education

Total number of employees with an NQF Level 1 and below	32
Employees with an NQF Level 1 and below as a % of total employees	53.33%
Total number of employees with an NQF Level 2,3 and 4	15
Employees with an NQF Level 2,3 and 4 as a % of total employees	25.00%
Total number of employees with an NQF Level 5 and above	11
Employees with an NQF Level 5 and above as a % of total employees	18.33%
Total employees in SOC 100 and 200 with an NQF Level 6 and above	0
Employees in SOC 100 and 200 with an NQF Level 6 and above as a % of total employees in those categories	0.00%
Total employees in SOC 300 with an NQF Level 5 and above	0
Employees in SOC 300 with an NQF Level 5 and above as a % of total employees in those categories	0.00%

3.4 TRAINING COURSES ATTEND

COURSE	COUNCILLORS	OFFICIALS
MFMP- IAT Learnerships		8
Executive Leadership and Management Development Programme	3	1
Water & Sanitation- Process Control		3

3.5 Trends on total expenditure over the last 3 to 5 years compared to total budget

2008/2009	23,00%
2009/2010	29,00%
2010/2011	23,99%

3.6 Number and name of pension fund and medical aid funds including of an assessment of future risks or liabilities

- Pension / Retirement/ Provident

Name of Pension/ Provident Fund	Total Members
Cape Joint Retirement Fund	6
SAMWU National Provident Fund	33
National Funds for Municipal Employees	1

- Medical Aid Fund

Name of Medical Aid Fund	Total Members	
	In Service	Continuation
Key Health	4	2
Discovery	0	2
SAMWU Medical Fund	5	0

- Liability of post retirement = R3073254 (see financial statements)

3.7 Arrears (outstanding monies) owed to municipality

Outstanding rates and taxes of councillors

30 June 2011

	Total	Outstanding less than 90 days	Outstanding more than 90 days
Councillor A.J. Jonas	3 070	77	2 993
Councillor L.H. van Rooi	4 388	113	4 275
Councillor S. Basson	7 596	266	6 683
Councillor S. April	8 761	986	7 775

CHAPTER 4: AUDITED STATEMENTS AND RELATED FINANCIAL INFORMATION

4.1 Policies Implemented

- Debt Collection
- Credit Control
- Indigent
- Subsistence and Travelling
- Cash Management and Investment
- Risk Management
- Preferential Procurement Policy
- Asset Management
- Supply Chain Management
- Fraud Statement
- Write Offs

4.2. Budget to Actual Comparison

Expenditure and Budget by Vote	2011 (Actual)	2011 (Budget)	2011 (Variance)	2011 (%)
Municipal Manager	(2 534 065)	(2 667 870)	133 805	-5.02%
Finance	(4 601 504)	(6 296 220)	1 694 716	-26.92%
Corporate Services	(5 316 731)	(5 168 710)	(148 021)	2.86%
Infrastructure	(13 105 744)	(13 044 090)	(61 654)	0.47%
Economic Development	(6 037 199)	(14 636 550)	8 599 351	-58.75%
Less Internal Charges	1 668 192	1 676 950	(8 758)	-0.52%
	(29 927 050)	(40 136 490)	10 209 440	-25.44%

4.2 Financial Statements

Annexure C

4.2 Audit Report

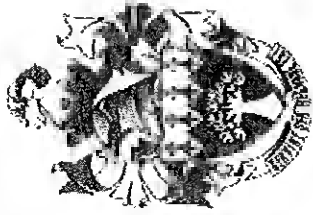
Annexure D

APPENDIX C

KHAH-MA MUNICIPALITY

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Balance	1 JULY 2010	30 SEPTEMBER 2010	1 OCTOBER 2010 -	31 MARCH 2011	30 JUNE 2011	1 APRIL 2011 -
	REC	EXPEN	REC	EXPEN	REC	EXPEN
OWAF (Donor Funds)	3 985 768	3 985 768	3 189 000	26 463	26 463	
OPLG - Equitable share				2 391 461	2 391 461	
Finance Management Grant	3 000 000	672 501	618 579	550 212		734 485
Municipal System Improvement Grant	750 000	44 545				89 189
Department Sport Arts and Culture - Library Development	320 000	33 856	68 500	47 686		160 028
Municipal Infrastructure Grant- National	6 633 471	1 000 000	99 557	2 000 000	5 682 226	3 301 000
Project Pula Nala						300 000
COGHSTA- Housing	5 115	196 992	183 737	247 051	7 243 522	73 082
EPWP		83 540		169 023	278 379	
Total	6 638 585	9 336 300	5 019 964	4 535 208	11 939 825	3 674 082
PUBLIC CONTRIBUTIONS						
Black Mountain – Vedanta		12 500	600 000	51 469	484 283	265 510
Namakwa District Municipality – Capital Extension office	510 741					
Namakwa District Municipality – Capital Roads	510 741	480 675	480 675			29 614
		12 500	600 000	51 469	484 283	250 000
	510 741	12 500	480 675	51 469	484 283	515 510
			600 000	-		295 124



KHÂH- MA

MUNICIPALITY

NC067

MUNICIPAL INFRASTRUCTURE GRANT (MIG)

Annual Report

2010- 2011

Content

1. Introduction
2. Principles Of The Municipal Infrastructure Grant Key Principles
3. Objectives Of The Municipal Infrastructure Grant
4. Allocations and projects
 - 4.1 Dora Allocations
 - 4.2 Projects
5. Progress to date
 - 5.1 Pofadder Bulk Water Project
 - 5.2 Other Projects
6. Challenges

CONDITIONAL GRANT ANNUAL REPORT: MUNICIPAL INFRASTRUCTURE GRANT - 2010/ 2011

1. Introduction

Khâi- ma Municipality received allocations for three consecutive years, ending 2011/ 2012 allocated by National Treasury, for the 2010/2011 financial year in terms of the DORA. This document aims to report on the progress on the spending(s) of the allocated funds for the 2010/ 2011 financial year and challenges faced during the implementation of the project business plan.

2. Principles Of The Municipal Infrastructure Grant Key Principles:

The key principles underpinning the design of the MIG are outlined below:

- (a) Focus on infrastructure required for a basic level of service: The MIG programme is aimed at providing only basic infrastructure.
- (b) Targeting the poor: The programme is aimed at providing services to the poor and funds will therefore be targeted to reach them.
- (c) Maximising economic benefits: The programme will be managed to ensure that the local economic spin-offs through providing infrastructure are maximised. This includes employment creation and the development of enterprises.
- (d) Equity in the allocation and use of funds: The mechanism for distributing funds must provide for equitable access to such funds by the poor in order to make uniform progress in closing the infrastructure gap.

3. OBJECTIVES OF THE MUNICIPAL INFRASTRUCTURE GRANT

National government provides infrastructure subsidies to ensure that all house-holds have access to a basic level of infrastructure services;

- a) Fully subsidise the capital costs of providing basic services to poor households: this implies that priority must be given to meeting the basic infrastructure needs of poor households, through the provision of appropriate bulk, connector and internal infrastructure in key services;
- (b) Distribute funding for municipal infrastructure in an equitable, transparent and efficient manner, which supports a co-ordinated approach to local development and maximises developmental outcomes;
- (c) assist in enhancing the developmental capacity of municipalities, through supporting multi-year planning and budgeting systems.

4. Allocations and Projects
4.1 DORA allocated amounts:

Description	2009/2010	2010/2011	2011/2012	2012/2013
Approved Budget Amount	R6,849,000	R6,301,000 R6,849,000	R7,579,000	R9,215,000
Expenditure	R 243,611.45	R8,258,207.62	R0.00	R0.00
Difference	R6,605,388.55	R4,826,685.38	R7,579,000	R9,215,000

4.2 Projects

Project Name	MIG NR	Amount
Pofadder Bulk Water	97	R 13 150,000.00
Sending Community Centre	448	R 1 655 574.00
Melkbosrand Community Centre	443	R 1 655 574.00
Witbank Community Centre	444	R 1 256 800.00

5. Progress to date

5.1. Pofadder Bulk Water Project

The main focus was on the implementation of Pofadder Bulk Water project, a 14 kilometers pipeline from the Pelladrift Water Board pipeline to Pofadder booster pump station. The allocation for 2010/2011 was also reserved for the above- mentioned project as per council resolution.

5.1.1 Procurement

The project managers was BVi Consulting Engineers.

The environmental impact assessment was done by Van Zyl Environmental Consultants and was completed during the financial year.

LG pipes, as the supplier of material and Ensta Henra was appointed as the contractor per tenders.

The construction phase is completed at the end of the financial year, though the project could not be completed at the end of the financial year, but early in the 2011/ 2012. Testing of the pipeline is outstanding and will be done during the first quarter of the next financial year.

5.1.2 Job Creation and Training

Local labour was utilized for the duration at the project.

The total employees which was directly employed by the contractor are:
 Another twenty six (26)- laborers were employed through sub- contractors. Information about their employment could not be obtained at the contractor as well as sub-contractor except their names, some identity numbers and some birth dates.

No training was presented.

Adult		Youth		Disabled		Total employment to date	Person Days to date
Female	Male	Female	Male	Female	Male		
2	24	2	35	0	0	63	1407

5.1.3 Expenditure

The total spending amounts up to R8,501,819.07 which form about 64% of the total allocation. Outstanding claims will be paid in the next financial year. The intention is to spend the remainder funder on the supply (upgrading of booster pumps or to replace another distance of pipe after the pump station), after consultation with the MIG office and submission of a business plan.

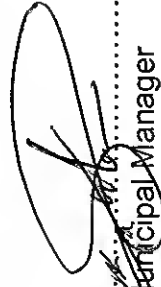
5.2 Other Projects

No expenditure regarding these projects did occur.

6. Challenges

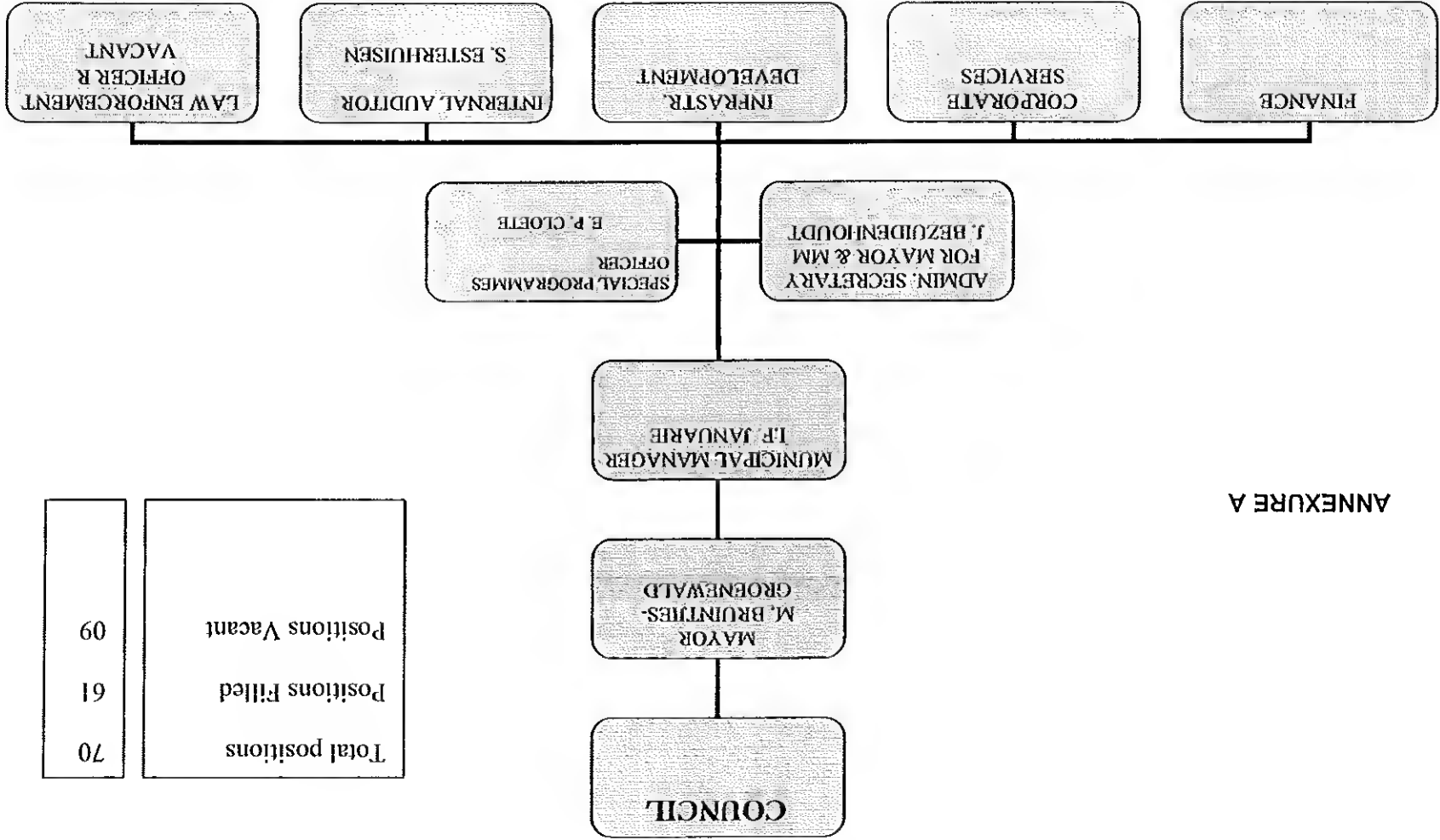
Since the Municipality does not have technical expertise as part of its staff, consultants are utilized for project management. Employees appointed by DBSA (Size Manje) assisted the municipality with the other projects and applications to be submitted to the programme.

Signed at Pofadder on the 21. day of October.....2011

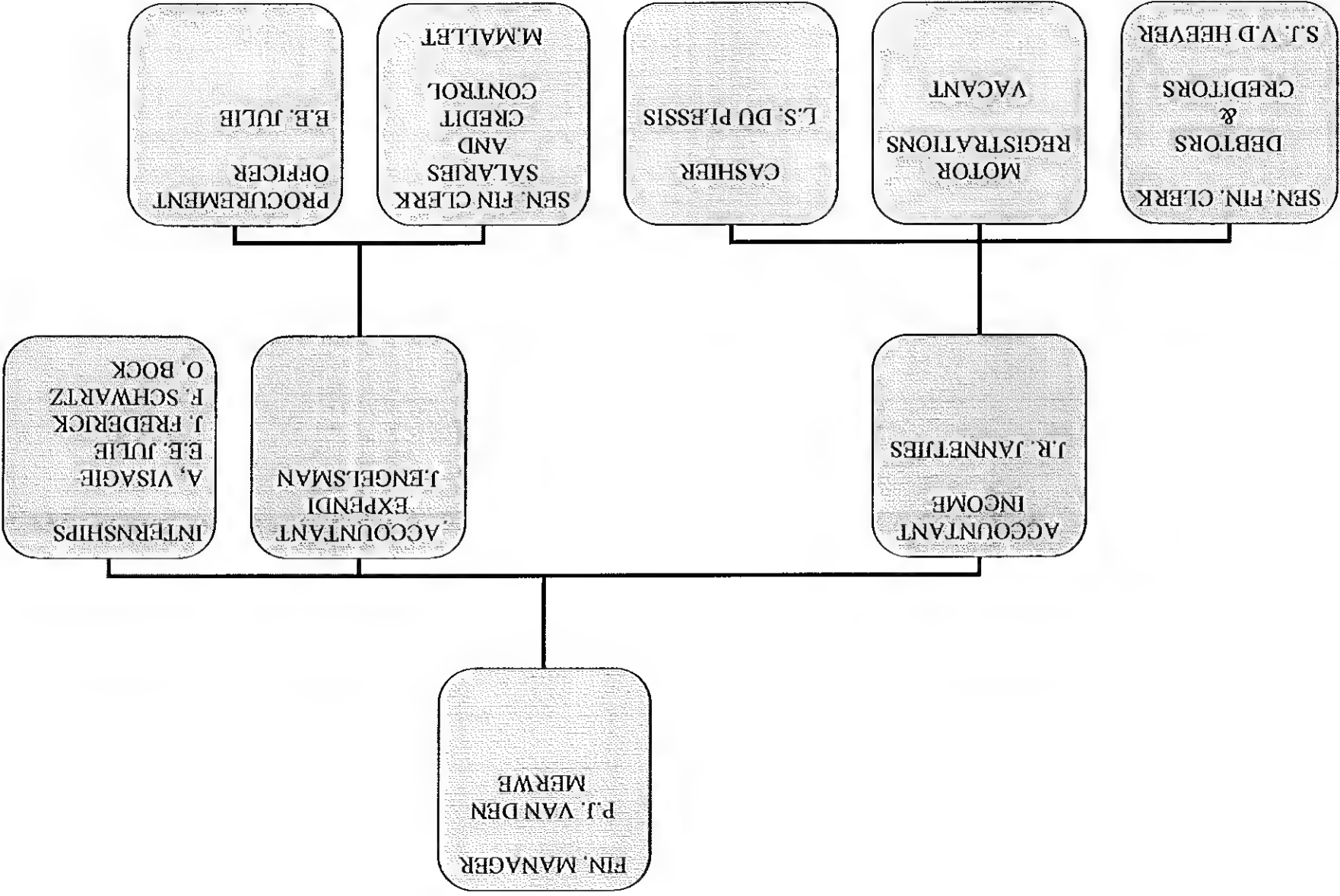

 Municipal Manager


 Mayor

Total positions	70
Positions Filled	61
Positions Vacant	09

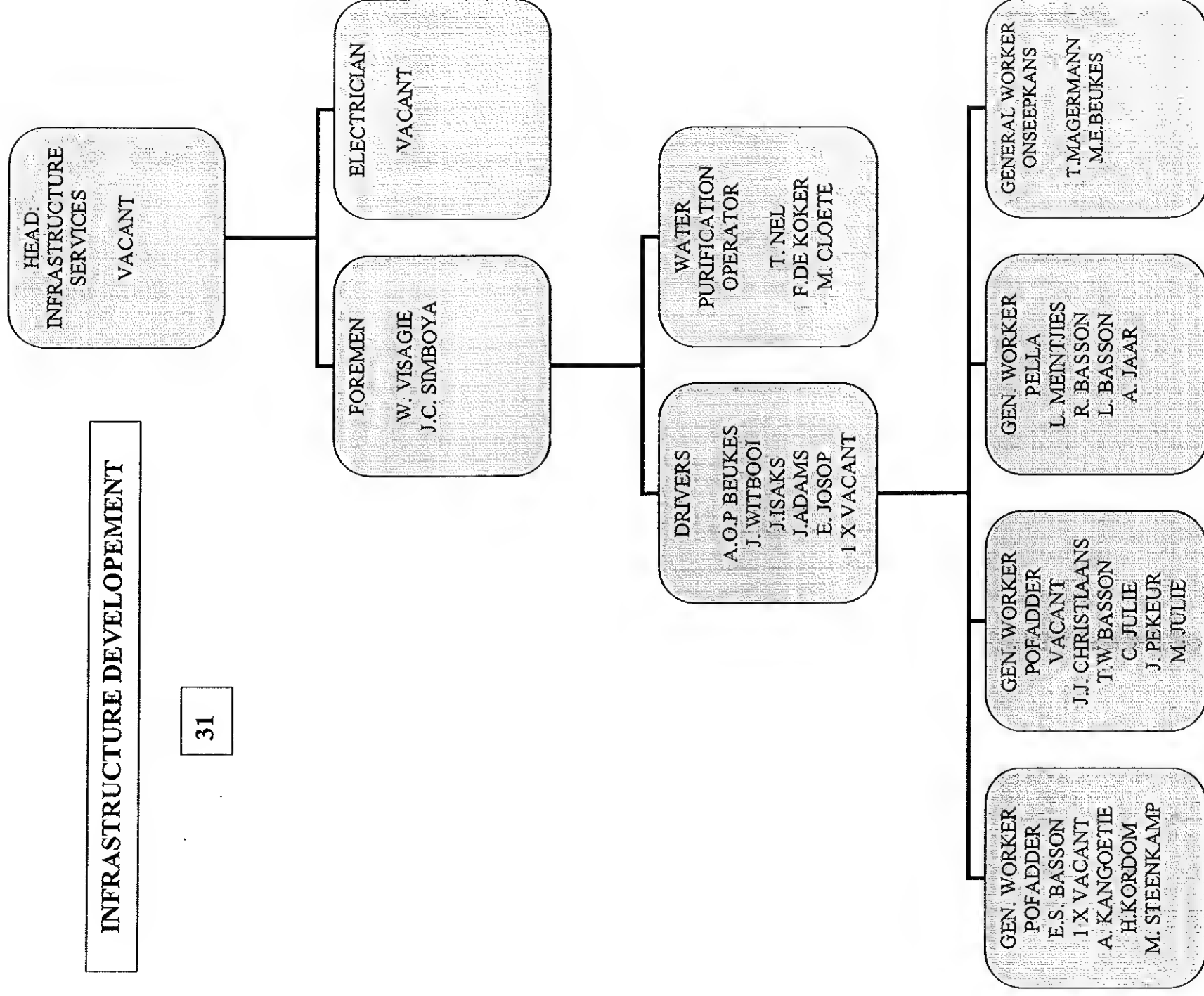


ANNEXURE A

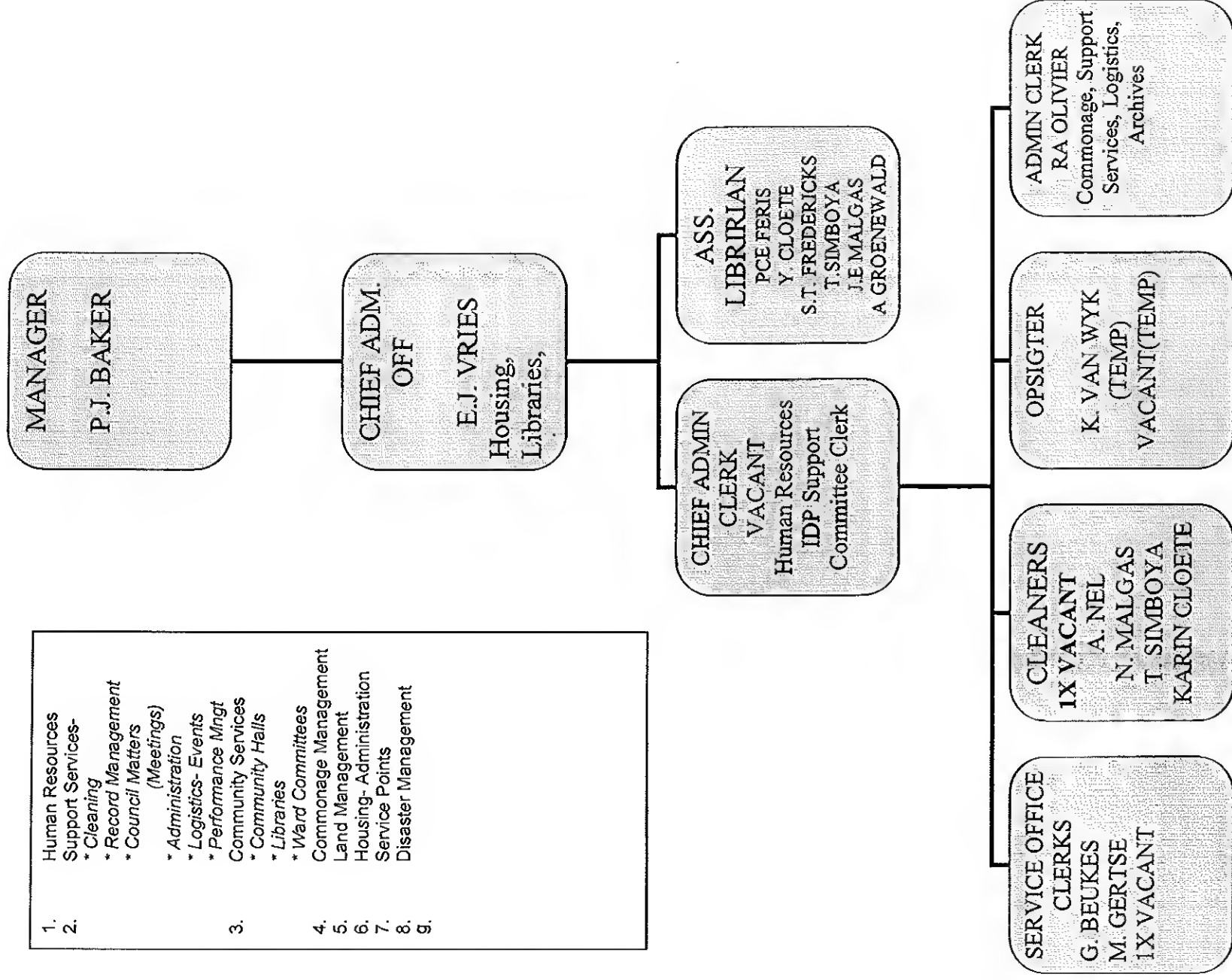


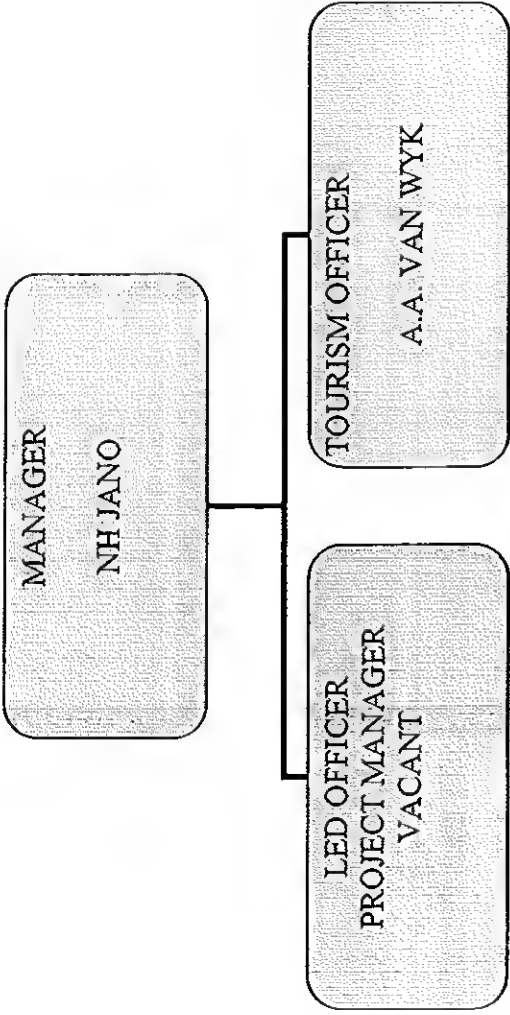
INFRASTRUCTURE DEVELOPEMENT

31



1. Human Resources
2. Support Services-
 - * Cleaning
 - * Record Management
 - * Council Matters (Meetings)
3.
 - * Administration
 - * Logistics- Events
 - * Performance Mngt
 - Community Services
 - * Community Halls
 - * Libraries
 - * Ward Committees
4. Commonage Management
5. Land Management
6. Housing- Administration
7. Service Points
8. Disaster Management
- 9.

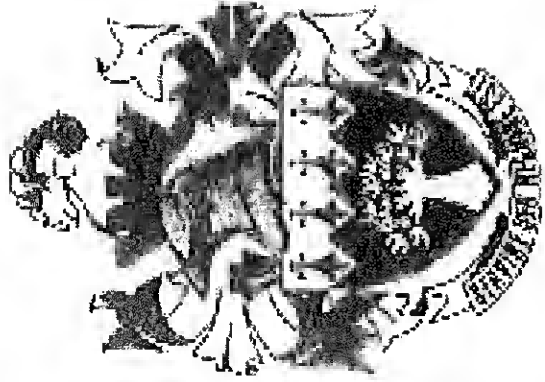




EKONOMIC DEVELOPMENT

Khâi-MA

MUNICIPALITY



FINANCIAL STATEMENTS

30 JUNE 2011

KHAI-MA MUNICIPALITY

Index

Contents	Page
----------	------

General Information	1
Approval of the Financial Statements	2
Report of the Auditor General	3
Report of the Chief Financial officer	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes In Net Assets	7
Cash Flow Statement	8
Accounting Policies	9
Notes to the Financial Statements	34 - 65

APPENDICES

A	Schedule of External Loans	66
B	Segmental Analysis of Property, Plant and Equipment	67
C	Disclosure of Grants and Subsidies In Terms of Section 123 of MFMA, 56 of 2003	68

KHAI-MA MUNICIPALITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

GENERAL INFORMATION

NATURE OF BUSINESS

Khai Ma Municipality is a local municipality performing the functions as set out in the Constitution. (Act no 105 of 1996)

COUNTRY OF ORIGIN AND LEGAL FORM

South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)

JURISDICTION

The Khai Ma Municipality includes the following areas:

Pofadder
Pella
Omseepkans
Witbank
Aggeneys

MUNICIPAL MANAGER

Mr. IF Januarie

CHIEF FINANCIAL OFFICER

Mr. PJ van der Merwe

REGISTERED OFFICE

*P.O. Box 108
Pofadder
8890*

AUDITORS

The Auditor-General
Private Bag X5013
Klamberley
8300

PRINCIPLE BANKERS

The Standard Bank of S.A. Ltd
Pofadder Branch
P.O. Box 60
Pofadder
8890

ATTORNEYS

Matteus en Associates

RELEVANT LEGISLATION

Municipal Finance Management Act (Act no 56 of 2003)
Division of Revenue Act
The Income Tax Act
Value Added Tax Act
Municipal Structures Act (Act no 117 of 1998)
Municipal Systems Act (Act no 32 of 2000)
Municipal Planning and Performance Management Regulations
Water Services Act (Act no 108 of 1997)
Housing Act (Act no 107 of 1997)
Municipal Property Rates Act (Act no 6 of 2004)
Electricity Act (Act no 41 of 1987)
Skills Development Levies Act (Act no 9 of 1999)
Employment Equity Act (Act no 55 of 1998)
Unemployment Insurance Act (Act no 30 of 1966)
Basic Conditions of Employment Act (Act no 75 of 1997)
Supply Chain Management Regulations, 2005
Collective Agreements
Infrastructure Grants
SALBC Leave Regulations

KHAI-MA MUNICIPALITY

MEMBERS OF THE Khai Ma MUNICIPALITY

WARD


Ward 1
Ward 2
Ward 3
Ward 4
Proportional
Proportional
Proportional

COUNCILLOR

Councillor A.J. Jonas (Mayor)
Councillor H.J. Raman
Councillor P.A. van Heerden
Councillor S.T. Basson
Councillor L.H. van Rooi
Councillor S.M. Magerman
Councillor S. April

APPROVAL OF FINANCIAL STATEMENTS

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 58 in terms of Section 126 (1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.


F. MANUARE
Municipal Manager

22 August 2011
Date

KHAL-MA MUNICIPALITY

FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2011

1. REVIEW OF OPERATING RESULTS

The overall operating results for the year ended 30 June 2011 as well as the comparison with the budgeted figures and the actual results of 2010 are summarised as follows:

Description	Budget 2011	Actual 2011	Variance	Variance Actual as % of Budget	Actual 2010
INCOME					
Operating Income	39,417,020	58,931,340	19,514,320	49.51	20,124,232
EXPENDITURE					
Operating Expenditure	(29,927,050)	(40,136,490)	(10,209,440)	(34.11)	(21,844,345)
Profit/(Loss) for the year	9,489,970	18,794,850	9,304,880	98.05	(1,720,113)

Details of operating results per department and classification of income and expenditure is included in the Statement of Performance.

2. OPERATING EXPENDITURE

The expenditure per function for the year ended 30 June 2011 as well as the comparison with the budgeted figures and the actual results of 2010 are summarised as follows:

Description	Budget 2011	Actual 2011	Variance	Variance Actual as % of Budget	Actual 2010
Employee related costs	6,305,940	5,769,670	536,270	8.50	5,029,017
Remuneration of Councillors	1,523,510	1,399,009	124,501	8.17	1,421,457
Debt Impairment of Landfill Site	1,570,080	1,575,267	(5,187)	(0.33)	2,696,483
Depreciation and Amortisation	200,000	1,756,003	200,000	100.00	238,727
Impairments	1,482,550		(273,453)	(18.44)	1,439,993
Repairs and Maintenance	1,038,560	1,015,061	23,499	2.26	3,835
Unamortised discount - Interest	451,718	451,718	-	-	789,943
Actualia losses		474,957	(474,957)	-	498,930
Finance Charges	275,340	447,516	(172,176)	(62.53)	361,319
Bulk Purchases	4,085,000	4,002,992	82,008	2.01	3,163,904
Contracted services	220,000	210,313	9,687	4.40	243,601
General Expenses	22,983,792	12,824,544	10,159,248	44.20	5,957,136
TOTAL	40,136,490	29,927,050	10,209,440	88.24	21,844,345

3. OPERATING INCOME

Description	Budget 2011	Actual 2011	Variance	Variance Actual as % of Budget	Actual 2010
Property Rates	1,713,630	1,790,238	76,608	4.47	1,602,143
Government Grants and Subsidies	44,647,640	29,211,620	(15,436,020)	(34.57)	12,056,865
Contributed PPE	500,000	260,382	(239,618)	(47.92)	
Fines	40,000	21,435	(18,565)	(46.41)	25,330
Actualia Gains			-		
Service Charges	8,569,020	5,723,992	(2,845,028)	(33.20)	4,970,526
Rental of Facilities and Equipment	96,000	118,100	22,100	23.02	105,617
Interest Earned - External Investments	300,000	423,934	123,934	41.31	243,593
Interest Earned - Outstanding Debtors	452,000	617,326	165,326	36.58	754,406
Licences and Permits	16,200	24,265	8,065	49.78	15,731
Agency Services	100,000	104,707	4,707	4.71	101,453
Other Income	2,496,850	1,121,021	(1,375,829)	(55.10)	248,568
TOTAL	58,931,340	39,417,020	(19,514,320)	-57.34	20,124,232

4. EXTERNAL LOANS

Type	30/06/2010	Received	Redeemed	Transferred	30/06/2011
Annuity Loans	921,952	-	(543,958)	-	377,994
Lease Liabilities	41,014	-	(19,123)	-	21,891
TOTAL	962,966	-	(563,081)	-	399,885

5. PAYABLES, PROVISIONS AND UNSPENT CONDITIONAL GRANTS

	2011 R	2010 R
Payables		
Provision - Staff Leave	5,906,688	4,301,648
Unspent Conditional Grants	522,392	566,236
	6,117,999	8,894,364
	12,547,079	13,762,248

6. CONSUMER DEBTORS

	2011 R	2010 R
Property Rates		
Electricity	1,275,990	1,026,964
Water	362,793	382,578
Refuse	2,866,170	2,207,636
Sewerage	1,051,466	824,117
Other	1,136,565	892,821
Water Recognition	315,062	1,136,391
Electricity Recognition	97,198	90,060
Sewerage Recognition	43,257	56,801
	1,069	825
	7,149,570	6,618,193
	(5,222,867)	(3,652,438)
	1,926,703	2,965,755

Increase of consumer debtors due to non-payment of services.

7. CAPITAL EXPENDITURE

The following capital expenditure occurred during the 2010/2011 financial year:

Project	Budget	Expenditure	Variance
Land and Buildings			-
Infrastructure	14,189,360	9,016,961	5,172,399
Community Assets	1,788,997	384,579	1,404,418
Other Assets	824,503	352,304	472,199
TOTAL	16,802,860	9,753,844	7,049,016

SOURCE OF FINANCE

External Loans	
Government Grants and Subsidies	9,535,458
Capital Replacement Reserve	
Public Contributions	218,386
TOTAL	9,753,844

KHAI-MA MUNICIPALITY

STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2011

	Notes	2011 R	2010 R
NET ASSETS AND LIABILITIES			
Net Assets		56,297,491	46,807,521
Housing Development Fund	2	14,078	13,362
Revaluation Reserve	3	4,069,364	4,204,678
Accumulated Surplus/(Deficit)		52,214,050	42,589,481
Non-Current Liabilities		6,212,419	5,543,475
Long-term Liabilities	4	73,942	242,900
Employee Benefits	5	2,968,962	2,310,466
Non-current Provisions	6	3,169,515	2,990,109
Current Liabilities		12,962,286	14,666,765
Consumer Deposits	7	51,049	54,448
Current Employee Benefits Provisions	8	626,684	566,236
Payables from Exchange Transaction	9	-	-
Unspent Conditional Government Grants and Receipts	10	5,906,688	4,301,648
Unspent Conditional Public Contributions and Receipts	11	6,117,999	8,894,364
Taxes	12	-	-
Short-term Loans	13	-	-
Operating Lease Liability	14	-	-
Cash and Cash Equivalents	24,1	-	-
Current Portion of Long-term Liabilities	25	259,865	729,687
	4	-	120,382
Total Net Assets and Liabilities		75,472,197	67,017,761
ASSETS			
Non-Current Assets		63,331,865	55,359,635
Property, Plant and Equipment	15	62,945,169	54,931,506
Non-Current Assets Held for Sale	16	-	-
Investment Property	17	-	-
Intangible Assets	18	386,695	428,129
Investments	19	-	-
Long-Term Receivables	20	-	-
Current Assets		12,140,332	11,658,126
Inventory	21	3,155,472	1,066,629
Trade Receivables from exchange transactions	22	1,300,459	1,258,528
Other Receivables from non-exchange transactions	23	1,034,394	1,707,227
Unpaid Conditional Government Grants and Receipts	11	-	-
Operating Lease Asset	24,2	-	-
Taxes	13	1,341,262	402,914
Current Portion of Long-term Receivables	20	-	-
Cash and Cash Equivalents	25	5,308,745	7,222,829
Total Assets		75,472,197	67,017,761

KHALMA MUNICIPALITY

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2011

REVENUE	Notes	2011 R	2010 R Restated Balance	Change in Accounting Policy	2010 R Previously Reported
Revenue from Non-exchange Transactions		31,283,675	13,787,338	103,000	13,684,338
Taxation Revenue		1,790,238	1,602,143	-	1,602,143
Property taxes	26	1,790,238	1,602,143	-	1,602,143
Transfer Revenue		29,472,002	12,159,865	103,000	12,056,865
Government Grants and Subsidies	27	29,211,620	12,053,865	-	12,053,865
Public Contributions and Donations	28	260,382	3,000	-	3,000
Contributed Property, Plant and Equipment	29	-	103,000	103,000	-
Other Revenue		21,435	25,330	-	25,330
Fines					
Third party payments		21,435	25,330	-	25,330
Stock adjustments		-	-	-	-
Actuarial Gains	6	-	-	-	-
Changes in Fair Value	30.1	-	-	-	-
Other	31	-	-	-	-
Revenue from Exchange Transactions		8,133,345	6,439,894	-	6,439,894
Property Rates - penalties imposed and collection charges		-	-	-	-
Service Charges	32	5,723,992	4,970,526	-	4,970,526
Rental of Facilities and Equipment		118,100	105,617	-	105,617
Interest Earned - external investments		423,934	243,593	-	243,593
Interest Earned - outstanding debtors		617,326	754,406	-	754,406
Licences and Permits		24,265	15,731	-	15,731
Income for Agency Services		104,707	101,453	-	101,453
Other Income	33	1,121,021	248,568	-	248,568
Unamortised discount - Interest	34	-	-	-	-
Total Revenue		39,417,020	20,227,232	103,000	20,124,232
EXPENDITURE					
Employee related costs	35	5,769,670	5,171,013	-	5,171,013
Remuneration of Councillors	36	1,399,009	1,279,461	-	1,279,461
Debt Impairment	37	1,575,267	2,696,483	-	2,696,483
Collection costs		-	-	-	-
Increase In Provision for Rehabilitation of Landfill Site		-	-	(238,727)	238,727
Depreciation and Amortisation		1,756,003	1,821,687	381,695	1,439,993
Repairs and Maintenance		1,015,061	789,943	-	789,943
Unamortised discount - Interest		451,718	498,930	-	498,930
Actuarial losses	34	474,957	-	-	-
Finance Charges	6	447,516	530,571	169,251	361,319
Bulk Purchases	39	4,002,992	3,163,904	-	3,163,904
Contracted services	40	210,313	243,601	-	243,601
Grants and Subsidies Paid	41	-	-	-	-
Donations		47,702	68,044	-	68,044
General Expenses	42	12,730,572	5,889,093	-	5,889,093
Changes in Fair Value	30.2	-	-	-	-
Total Expenditure		29,880,781	22,152,729	312,219	21,840,510
Operating Surplus for the Year		9,536,239	(1,925,497)	(209,219)	(1,716,278)
Loss on disposal of Property, Plant and Equipment		33,726	135	-	-
Impairment Loss/(Reversal of Impairment Loss)	38	12,543	3,700	-	-
NET SURPLUS/(DEFICIT) FOR THE YEAR		9,489,970	(1,929,332)	(209,219)	(1,716,278)
Refer to Appendix E(1) for explanation of variances					

KHAI-MA MUNICIPALITY

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	Notes	2011 R	2010 R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Ratepayers and other		6,874,874	9,745,108
Government - operating		29,211,620	12,053,865
Government - capital		-	-
Interest		1,041,260	997,999
Dividends		-	-
Payments			
Suppliers and employees		(27,578,801)	(15,509,865)
Finance charges		(447,516)	(530,571)
Transfers and Grants		-	-
Cash generated/(absorbed) by operations	44	9,101,436	6,756,536
Interest Received		423,934	243,593
Interest Paid		(447,516)	(530,571)
Net Cash from Operating Activities		9,077,853	6,469,559
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment		(9,753,844)	(1,512,154)
Proceeds on Disposal of Fixed Assets		-	-
(Increase)/Decrease in Intangible Assets		(23,815)	(433,668)
(Increase)/Decrease in Long-term Receivables		-	-
(Increase)/Decrease in Non-current Investments		-	-
Net Cash from Investing Activities		(9,777,659)	(1,945,822)
CASH FLOW FROM FINANCING ACTIVITIES			
New loans raised/(repaid)		(481,193)	(559,942)
Increase/(Decrease) in Consumer Deposits		(3,399)	6,681
Net Cash from Financing Activities		(484,592)	(553,261)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,184,398)	3,970,476
Cash and Cash Equivalents at the beginning of the year		6,493,142	2,522,666
Cash and Cash Equivalents at the end of the year	45	5,308,745	6,493,142
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(1,184,398)	3,970,476

KHAI-MA MUNICIPALITY

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2011

	Housing Development Fund	Revaluation Reserve	Accumulated Surplus/ (Deficit)	Total
Balance at 1 JULY 2009	12,641	4,353,078	35,106,051	39,471,770
Net Surplus/(Deficit) for the year			(1,929,332)	(1,929,332)
Change in Accounting Policy - Note 43.4		(5,133)	9,270,216	9,265,083
Revaluation of PPE		-	-	-
Donated/contributed PPE			-	-
Property, Plant and Equipment purchased			-	-
Capital Grants used to purchase PPE			-	-
Transfer to Housing Development Fund	721		(721)	-
Asset Disposals		(143,267)	143,267	-
Offsetting of depreciation			-	-
Balance at 30 JUNE 2010	13,362	4,204,678	42,589,481	46,807,521
Correction of Error - Note 43.4	-	-	-	-
Restated balance	13,362	4,204,678	42,589,481	46,807,521
Net Surplus/(Deficit) for the year			9,489,970	9,489,970
Transfer to/from CFR			-	-
Revaluation of PPE			-	-
Property, Plant and Equipment purchased			-	-
Capital Grants used to purchase PPE			-	-
Transfer to Housing Development Fund	716		(716)	-
Write-offs			-	-
Asset Disposals		(135,314)	135,314	-
Offsetting of depreciation			-	-
Balance at 30 JUNE 2011	14,078	4,069,364	52,214,050	56,297,491

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE FINANCIAL STATEMENTS

1.1. BASIS OF PREPARATION

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

The annual financial statements have been prepared in accordance with the effective standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The standards are summarised as follows:

GRAP 5	Borrowing Costs
GRAP 6	Consolidated and Separate Financial Statements
GRAP 7	Investments in Associates
GRAP 8	Interests in Joint Ventures
GRAP 101	Agriculture
GRAP 102	Intangible assets
IGRAP 1	Applying the probability test on initial recognition of exchange revenue
IPSAS 20	Related Party Disclosure
IFRS 3 (AC140)	Business Combinations
IFRS 4 (AC141)	Insurance Contracts
IFRS 6 (AC143)	Exploration for and Evaluation of Mineral Resources
IAS 12 (AC102)	Income Taxes
IAS 19 (AC116)	Employee Benefits
SIC – 21 (AC421)	Income Taxes – Recovery of Revaluated Non-Depreciable Assets
SIC – 25 (AC425)	Income Taxes – Changes in the Tax Status on an Entity or its Shareholders
SIC – 29 (AC429)	Service Concessions Arrangements – Disclosures
IFRIC 2 (AC435)	Members' Shares in Co-operative Entities and Similar Instruments
IFRIC 4 (AC437)	Determining whether an Arrangement contains a Lease
IFRIC 9 (AC442)	Reassessment of Embedded Derivatives
IFRIC 12 (AC445)	Service Concession Arrangements
IFRIC 13 (AC446)	Customer Loyalty Programmes
IFRIC 14 (AC447) IAS19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

IFRIC 15 (AC448)	Agreements for the Construction of Real Estate
IFRIC 16 (AC449)	Hedges in a Net Investment in a Foreign Operation

The Municipality resolved to early adopt the following GRAP standards which have been issued but are not effective yet.

Standard	Description	Effective Date
GRAP 1 (Revised)	Presentation of Financial Statements	1 April 2011
GRAP 2 (Revised)	Cash Flow Statements	1 April 2011
GRAP 3 (Revised)	Accounting Policies, Changes in Accounting Estimates and Errors	1 April 2011
GRAP 4 (Revised)	The Effects of changes in Foreign Exchange Rates	1 April 2011
GRAP 9 (Revised)	Revenue from Exchange Transactions	1 April 2011
GRAP 10 (Revised)	Financial Reporting in Hyperinflationary Economics	1 April 2011
GRAP 11 (Revised)	Construction Contracts	1 April 2011
GRAP 12 (Revised)	Inventories	1 April 2011
GRAP 13 (Revised)	Leases	1 April 2011
GRAP 14 (Revised)	Events after the reporting date	1 April 2011
GRAP 16 (Revised)	Investment Property	1 April 2011
GRAP 17 (Revised)	Property, Plant and Equipment	1 April 2011
GRAP 19 (Revised)	Provisions, Contingent Liabilities and Contingent Assets	1 April 2011
GRAP 21	Impairment of non-cash-generating assets	1 April 2012
GRAP 23	Revenue from Non-Exchange Transactions	1 April 2012
GRAP 26	Impairment of cash-generating assets	1 April 2012
GRAP 100 (Revised)	Non-current Assets held for Sale and Discontinued Operations	1 April 2011
GRAP 104	Financial Instruments	1 April 2012

The Municipality resolved to formulate an accounting policy based on the following GRAP standards which have been issued but are not effective yet.

Standard	Description	Effective Date
GRAP 25	Employee Benefits	Unknown

Accounting policies for material transactions, events or conditions not covered by the above GRAP have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

A summary of the significant accounting policies, which have been consistently applied except where an exemption or transitional provision has been granted, are disclosed below.

Assets, liabilities, revenue and expenses have not been offset except when offsetting is permitted or required by a Standard of GRAP.

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant notes to the Financial Statements.

In terms of Directive 4: "Transitional Provisions for Medium and Low Capacity Municipalities" issued by the Accounting Standards Board the municipality has adopted the transitional provisions for the following GRAP Standards (Refer to correction of error note as transitions was not utilised in the prior year):

GRAP 12 – Inventories
GRAP 16 – Investment Property
GRAP 17 – Property, Plant and Equipment
GRAP 19 – Provisions, Contingent Liabilities and Contingent Assets
GRAP 100 – Non-current Assets Held for Sale and Discontinued Operations
GRAP 102 – Intangible Assets

In terms of Directive 7: "The Application of Deemed Cost on the Adoption of Standards of GRAP" issued by the Accounting Standards Board, the Municipality applied deemed cost to Investment Property, Property, Plant and Equipment and Intangible where the acquisition cost of an asset could not be determined.

1.2. PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. No financial values are given in an abbreviated display format. No foreign exchange transactions are included in the statements.

1.3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on a going concern basis.

1.4. COMPARATIVE INFORMATION

As noted below, GRAP 24 is not effective yet, however budget information required in terms of GRAP 1 paragraph 11 to 14 have been disclosed in the financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.5. MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. In general, materiality is determined as 1% of total expenditure.

1.6. STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the Municipality:

Standard	Description	Effective Date
GRAP 6 (Revised)	Consolidated and Separate Financial Statements No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 7 (Revised)	Investments in Associate No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 8 (Revised)	Interest in Joint Ventures No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 18	Segment Reporting Information to a large extent is already included in the notes to the annual financial statements.	Unknown
GRAP 24	Presentation of Budget Information in Financial Statements Information to a large extent is already included in the notes to the annual financial statements.	1 April 2012
GRAP 103	Heritage Assets No adjustments will necessary as the Municipality has no heritage assets.	1 April 2012
GRAP 105	Transfer of Functions Between Entities Under Common Control No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 106	Transfer of Functions Between Entities Not Under Common Control No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown
GRAP 107	Mergers No significant impact is expected as the Municipality does not participate in such business transactions.	Unknown

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

These standards, amendments and interpretations will not have a significant impact on the Municipality once implemented.

1.7. RESERVES

1.7.1 *Housing Development Fund*

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government, used to finance housing selling schemes undertaken by the Municipality, were extinguished on 1 April 1998 and transferred to the Housing Development Fund. Housing selling schemes, both completed and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sale of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.7.2 *Revaluation Reserve*

The surplus arising from the revaluation of PPE is credited to a non-distributable reserve. On disposal, the net revaluation surplus is transferred to the accumulated surplus / (deficit) while gains or losses on disposal, based on revaluated amounts, are charged to the Statement of Financial Performance.

An amount equal to the difference between the new (enhanced) annual depreciation expense and the depreciation expenses determined in respect of such items of PPE before the revaluation in question is transferred each year from the revaluation reserve to the Municipality's accumulated surplus.

1.8. LEASES

1.8.1 *Municipality as Lessee*

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.8.2 *Municipality as Lessor*

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to derecognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease.

1.9. **UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the public.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

1.10. **UNPAID CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the Statement of Financial Position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

The following provisions are set for the creation and utilisation of the grant is receivables:

- Unpaid conditional grants are recognised as an asset when the grant is receivable.

1.11. **PROVISIONS**

Provisions are recognised when the Municipality has a present legal or constructive obligation as a result of past events, it is possible that an outflow of resource embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is possible.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The Municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented.

(b) The Municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the reporting date.

Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.

1.12. EMPLOYEE BENEFITS

(a) *Post Retirement Medical obligations*

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are charged to the Statement of Financial Performance when employees have rendered the service entitling them to the contribution. The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

not split between a past (or accrued) and future in-service element. The liability is recognised at the fair value of the obligation. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

(b) Long Service awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries periodically and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

(c) Ex gratia Gratuities

Ex gratia gratuities are provided to employees that were not previously members of a pension fund. The Municipality's obligation under these plans is valued by independent qualified actuaries and the corresponding liability is raised. Payments made by the Municipality are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are charged against the Statement of Financial Performance as employee benefits upon valuation. Defined benefit plans are post-employment plans other than defined contribution plans.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is charged or credited to the Statement of Financial Performance in the period that it occurs. These obligations are valued periodically by independent qualified actuaries.

(d) Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year end and also on the total remuneration package of the employee.

(e) Staff Bonuses

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year end for each employee.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(f) Performance bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is maintained. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

(g) Pension and retirement fund obligations

The Municipality provides retirement benefits for its employees and councillors. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Defined benefit plans are post-employment benefit plans other than defined contribution plans. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities. The contributions and lump sum payments are charged against income in the year they become payable. Sufficient information is not available to use defined benefit accounting for a multi-employer plan. As a result, defined benefit plans have been accounted for as if they were defined contribution plans.

1.13. BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised to the cost of that asset unless it is inappropriate to do so. The Municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete. It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established. Borrowing costs incurred other than on qualifying assets are recognised as an expense in the Statement of Financial Performance when incurred.

1.14. PROPERTY, PLANT AND EQUIPMENT

1.14.1 Initial Recognition

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Where an asset is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the assets acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.14.2 Subsequent Measurement – Revaluation Model

Subsequent to initial recognition, Property, Plant and Equipment are carried at a revalued amount, unless otherwise stated in the relevant Notes to the Financial Statements, being its fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. The fair value is, based on periodic, but at least every four years, valuations by external independent valuers at the same time as when municipality's valuation roll is prepared.

An increase in the carrying amount of an asset as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

1.14.3 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the Municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

1.14.4 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	Years	Other	Years
<u>Infrastructure</u>		<u>Other</u>	
Roads and Paving	30	Buildings	30
Pedestrian Malls	30	Specialist vehicles	10
Electricity	20-30	Other vehicles	5
Water	15-20	Office equipment	3-7
Sewerage	15-20	Furniture and fittings	7-10
Housing	30	Watercraft	15
		Bins and containers	5
<u>Community</u>		Specialised plant and	
Buildings	30	Equipment	10-15
Recreational Facilities	20-30	Other plant and	
Security	5	Equipment	2-5
Halls	20-30	Landfill sites	15
Libraries	20-30	Quarries	25
Parks and gardens	15-20	Emergency equipment	10
Other assets	15-20	Computer equipment	3
<u>Finance lease assets</u>			
Office equipment	3		
Other assets	5		

Property, plant and equipment are reviewed at each reporting date for any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment charged to the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

An impairment is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined had no impairment been recognised. A reversal of an impairment is recognised in the Statement of Financial Performance.

1.14.5 De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.14.6 Land and buildings and Other Assets – application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Land and Buildings the fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2008. For Other Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2008.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.15. INTANGIBLE ASSETS

1.15.1 Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

The Municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the Municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the Municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

1.15.2 Subsequent Measurement – Cost Model

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

1.15.3 Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

<u>Intangible Assets</u>	<u>Years</u>
Computer Software	3

1.15.4 De-recognition

Intangible assets are derecognised when the asset is disposed or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.15.5 Application of deemed cost (Directive 7)

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. For Intangible Assets the depreciation cost method was used to establish the deemed cost as on 1 July 2008.

1.16. INVESTMENT PROPERTY

1.16.1 Initial Recognition

Investment property shall be recognised as an asset when, and only when:

- It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity, and
- the cost or fair value of the investment property can be measured reliably.

Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use. The cost of self-constructed investment property is the cost at date of completion.

1.16.2 Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of investment property are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.16.3 Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

<u>Investment Property</u>	<u>Years</u>
Buildings	30

1.16.4 De-recognition

Investment property is derecognised when it is disposed or when there are no further economic benefits expected from the use of the investment property. The gain or loss arising on the disposal or retirement of an item of investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.16.5 Application of deemed cost - Directive 7

The Municipality opted to take advantage of the transitional provisions as contained in Directive 7 of the Accounting Standards Board, issued in December 2009. The Municipality applied deemed cost where the acquisition cost of an asset could not be determined. The fair value as determined by a valuator was used in order to determine the deemed cost as on 1 July 2008.

1.17. NON-CURRENT ASSETS HELD FOR SALE**1.17.1 Initial Recognition**

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

1.17.2 Subsequent Measurement

Non-current assets held for sale (or disposal group) are measured at the lower of carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.18. IMPAIRMENT OF NON-FINANCIAL ASSETS

1.18.1 Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the municipality estimates the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Municipality estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.18.2 Non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

The Municipality assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Municipality estimates the asset's recoverable service amount.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss recorded in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches:

- *depreciated replacement cost approach* - the present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

- *restoration cost approach* - the cost of restoring the service potential of an asset to its pre-impaired level. Under this approach, the present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.
- *service unit approach* - the present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. As in the restoration cost approach, the current cost of replacing the remaining service potential of the asset before impairment is usually determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

The Municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

1.19.

NON CURRENT INVESTMENTS

Financial instruments, which include, investments in municipal entities and fixed deposits invested in registered commercial banks, are stated at amortised cost.

Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

The carrying amounts of such investments are reduced to recognise any decline, other than a temporary decline, in the value of individual investments.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.20. INVENTORIES

1.20.1 *Initial Recognition*

Inventories comprise current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the Municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

1.20.2 *Subsequent Measurement*

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

In general, the basis of allocating cost to inventory items is the weighted average method.

1.21. FINANCIAL INSTRUMENTS

Financial instruments recognised on the balance sheet include trade and other receivables, cash and cash equivalents, annuity loans and trade and other payables.

1.21.1 *Initial Recognition*

Financial instruments are initially recognised when the municipality becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

1.21.2 *Subsequent Measurement*

Financial Assets are categorised according to their nature as either financial assets at fair value through profit or loss, held-to-maturity, loans and receivables, or available for sale. Financial Liabilities are categorised as either at fair value through profit or loss or financial liabilities carried at amortised cost ("other"). The subsequent measurement of financial assets and liabilities depends on this categorisation and, in the absence of an approved GRAP Standard on Financial Instruments, is in accordance with IAS 39.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.21.2.2 Trade and Other Receivables

Trade and other receivables are classified as loans and receivables, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the municipality. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

1.21.2.3 Trade Payables and Borrowings

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

1.21.2.4 Cash and Cash Equivalents

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities; other financial liabilities carried at amortised cost.

1.21.3 De-recognition of Financial Instruments

1.21.3.1 Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the municipality has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the municipality has transferred substantially all the risks and rewards of the asset, or (b) the municipality has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the municipality has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognised to the extent of the municipality's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the municipality could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the municipality's continuing involvement is the amount of the transferred asset that the municipality may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the municipality's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.21.3.2 Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

1.21.4 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.22. REVENUE

1.22.1 *Revenue from Non-Exchange Transactions*

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportionate basis as an exchange transaction.

Fine Revenue constitutes both spot fines and summonses. Revenue from spot fines and summonses is recognised based on an estimation of future collections of fines issued based on prior period trends and collection percentages.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Municipality. Where public contributions have been received but the Municipality has not met the related conditions, it is recognised as an unspent public contribution (liability).

Revenue from third parties i.e. insurance payments for assets impaired, are recognised when it can be measured reliably and is not being offset against the related expenses of repairs or renewals of the impaired assets.

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Municipality.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Revenue shall be measured at the fair value of the consideration received or receivable.

When, as a result of a non-exchange transaction, a Municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the present obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability will be recognised as revenue.

1.22.2 *Revenue from Exchange Transactions*

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered/ goods sold, the value of which approximates the consideration received or receivable.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Service charges relating to electricity and water are based on consumption and a basic charge as per Council resolution. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property.

Service charges from sewerage are based on a basic charge as per Council resolution.

Interest revenue is recognised using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant tariff. This includes the issuing of licences and permits.

Revenue from the sale of goods is recognised when substantially all the risks and rewards in those goods are passed to the consumer.

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Revenue shall be measured at the fair value of the consideration received or receivable.

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating; or

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

-
- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue and in accordance with the relevant Standards of GRAP on Financial Instruments.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

1.22.3 Grants, Transfers and Donations (Non-Exchange Revenue)

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.23. RELATED PARTIES

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

- Entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the reporting entity;
- Individuals owning, directly or indirectly, an interest in the reporting entity that gives them significant influence over the entity, and close members of the family of any such individual;
- Key management personnel, and close members of the family of key management personnel; and
- Entities in which a substantial ownership interest is held, directly or indirectly, by any person described in the 2nd and 3rd bullet, or over which such a person is able to exercise significant influence.

Key management personnel include:

- All directors or members of the governing body of the entity, being the Executive Mayor, Deputy Mayor, Speaker and members of the Mayoral Committee.
- Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting entity being the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

1.24. UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in a form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.25. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Municipality's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.26. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27. CONTINGENT LIABILITIES

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

Management judgement is required when recognising and measuring contingent liabilities.

1.28. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information was prepared in accordance with the best practice guidelines issued by National Treasury. The presentation of budget information is in line with the basis of accounting as per the GRAP Framework. GRAP 24: Presentation of Budget Information in Financial Statements is not yet effective. This standard bring new rules in respect of presentation of budget information.

1.29. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Municipality's accounting policy, management has made the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Post retirement medical obligations, Long service awards and Ex gratia gratuities

The cost of post retirement medical obligations, long service awards and ex-gratia gratuities are determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

Impairment of trade receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

Property, plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

For deemed cost applied to other assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

For deemed cost applied to land and buildings as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Intangible assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

For deemed cost applied to intangible assets as per adoption of Directive 7, management used the depreciation cost method which was based on assumptions about the remaining duration of the assets.

Investment Property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

KHAI MA MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

For deemed cost applied to Investment Property as per adoption of Directive 7, management made use of an independent valuator. The valuator's valuation was based on assumptions about the market's buying and selling trends and the remaining duration of the assets.

Provisions and contingent liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

Revenue Recognition

Accounting Policy 1.22.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.19.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. Revenue from the issuing of spot fines and summonses has been recognised on the accrual basis using estimates of future collections based on the actual results of prior periods. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

1.30. TAXES – VALUE ADDED TAX

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.31. AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements. The principal amendments to matters disclosed in the current financial statements include fundamental errors, and the treatment of assets financed by external grants.

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
2 HOUSING DEVELOPMENT FUND		
Housing Development Fund	14,078	13,362
Unappropriated Surplus	14,078	13,362
Loans extinguished by Government on 1 April 1998	-	-
Total Housing Development Fund Assets and Liabilities	14,078	13,362
3 NET ASSET RESERVES		
RESERVES	4,069,364	4,204,678
Capital Replacement Reserve	-	-
Capitalisation Reserve	-	-
Government Grant Reserve	-	-
Donations and Public Contribution Reserve	-	-
Self Insurance Reserve	-	-
Revaluation Reserve	4,069,364	4,204,678
Total Net Asset Reserve and Liabilities	4,069,364	4,204,678
4 LONG TERM LIABILITIES		
Annuity Loans - At amortised cost	399,885	962,966
Capitalised Lease Liability - At amortised cost	90,907	9,019
Less: Current Portion transferred to Current Liabilities	490,792	971,985
	(259,865)	(120,382)
Annuity Loans - At amortised cost	(242,900)	(111,363)
Capitalised Lease Liability - At amortised cost	(16,965)	(9,019)
Less: Unamortised charges on loans	230,827	851,603
Balance 1 July	(156,965)	(608,703)
Adjustment for the period - Note 34	(608,703)	(1,107,633)
Restatement of prior year comparatives - Note 44	451,718	498,930
Total Long-term Liabilities - At amortised cost using the effective interest rate method	73,942	242,900
Annuity loans at amortised cost is calculated at 5%-14% interest rate, with first maturity date of 29 February 2012 and last maturity date of 30 June 2012. The schedule of contractual maturity analysis for Annuity Loans:		
The obligations under annuity loans are scheduled below:		
Amounts payable under annuity loans:		
Payable within one year	409,612	602,009
Payable within two to five years	-	409,612
Payable after five years	-	-
Less: Future finance obligations	409,612	1,011,621
	(9,727)	(48,656)
Present value of annuity obligations	399,885	962,966
The obligations under finance leases are scheduled below:		
Amounts payable under finance leases:		
Payable within one year	25,992	9,160
Payable within two to five years	88,806	-
Payable after five years	-	-
	114,798	9,160
Less: Future finance obligations	(23,891)	(140)
Present value of lease obligations	90,907	9,019

Refer to Appendix A for descriptions, maturity dates and effective interest rates of structured loans and finance. Leases are secured by property, plant and equipment - **Note 15**

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

5

EMPLOYEE BENEFITS

Provision for Post Retirement Benefits

2011 R	2010 R
-----------	-----------

2,968,962	2,310,466
<u>2,968,962</u>	<u>2,310,466</u>

Post Retirement Benefits

Balance 1 July
Contribution for the year
Expenditure for the year
Actuarial Loss/(Gain)

2,408,727	2,233,884
287,831	266,103
(98,261)	(91,260)
474,957	-

Total provision 30 June

3,073,254	2,408,727
-----------	-----------

Less: Transfer of Current Portion to Current Provisions - Note 8

(104,292)	(98,261)
-----------	----------

Balance 30 June

<u>2,968,962</u>	<u>2,310,466</u>
------------------	------------------

5.1

Provision for Post Retirement Benefits

The Post Retirement Benefit Plan is a defined benefit plan, of which the members are made up as follows:

In-service (employee) members
In-service (employee) non-members
Continuation members (e.g. Retirees, widows, orphans)

9	11
35	
4	4

Total Members

48	15
----	----

The liability in respect of past service has been estimated to be as follows:

In-service members
Continuation members

1,384,537	-
1,688,717	-

Total Liability

<u>3,073,254</u>	<u>2,408,727</u>
------------------	------------------

The liability in respect of periods commencing prior to the comparative year has been estimated as follows:

2009 R	2008 R	2007 R
793,761		
1,440,123		
<u>2,233,884</u>	<u>1,487,905</u>	<u>-</u>

The municipality makes monthly contributions for health care arrangements to the following medical aid schemes:

LA Health
Key Health

The Current-service Cost for the ensuing year is estimated to be R 106,673 (2010: R 70,293), whereas the Interest Cost for the next year is estimated to be R 260,400 (2010: R 217,500).

Key actuarial assumptions used:

i) Rate of Interest:

Discount rate
Health Care Cost Inflation Rate
Net Effective Discount Rate

8.62%	9.22%
7.31%	7.57%
1.22%	1.43%

ii) Mortality rates

The PA 90 ultimate table, rated down by 1 year of age was used by the actuaries.

iii) Normal retirement age

The normal retirement age for employees of the municipality is 63 years.

The amounts recognised in the Statement of Financial Position are as follows:

Present value of fund obligations
Fair value of plan assets

3,073,254	2,408,727
-----------	-----------

<u>3,073,254</u>	<u>2,408,727</u>
------------------	------------------

Present Value of unfunded obligations

-	-
---	---

Net liability/(asset)

-	-
---	---

The municipality has elected to recognise the full increase in this defined benefit liability immediately as per IAS 19, Employee Benefits, paragraph 155 (a).

Reconciliation of present value of fund obligation:

Present value of fund obligation at the beginning of the year

2,408,727	2,233,884
-----------	-----------

Total expenses

189,570	174,843
---------	---------

Current service cost

70,293	64,362
--------	--------

Interest Cost

217,538	201,741
---------	---------

Benefits Paid

(98,261)	(91,260)
----------	----------

Actuarial (gains)/losses

474,957	-
---------	---

Present value of fund obligation at the end of the year

<u>3,073,254</u>	<u>2,408,727</u>
------------------	------------------

KHAL-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Reconciliation of fair value of plan assets:

	2011 R	2010 R
Fair value of plan assets at the beginning of the year	-	-
Expected return on plan assets	-	-
Contributions: Employer	-	-
Contributions: Employee	-	-
Past Service Costs	-	-
Actuarial (gains)/losses	-	-
Benefits Paid	-	-
Fair value of plan assets at the end of the year	-	-

	In-service members liability (Rm)	Continuation members liability (Rm)	Total liability (Rm)	% change
Assumption				
Central Assumptions	1385	1689	3,074	
Assumption	In-service members liability (Rm)	Continuation members liability (Rm)	Liability (Rm)	% change
Health Care Inflation	1,684	1,896	3,580	16.00%
Health Care Inflation	1,148	1,514	2,662	-13.00%
Post Retirement Mortality	1,430	1,749	3,179	3.00%
Average retirement age	1,510	1,689	3,199	4.00%
Withdrawal rates	1,492	1,689	3,181	3.00%

5.1

Retirement funds

The Municipality requested detailed employee and pensioner information as well as information on the Municipality's share of the Pension and Retirement Funds' assets from the fund administrator. The fund administrator confirmed that assets of the Pension and Retirement Funds are not split per participating employer. Therefore, the Municipality is unable to determine the value of the plan assets as defined in GRAP 25.

As part of the Municipality's process to value the defined benefit liabilities, the Municipality requested pensioner data from the fund administrator. The fund administrator claim that the pensioner data to be confidential and were not willing to share the information with the Municipality. Without detailed pensioner data the Municipality was unable to calculate a reliable estimate of the accrued liability in respect of pensioners who qualify for a defined benefit pension.

Therefore, although both the Cape Joint Pension Fund and Cape Joint Retirement Fund are defined as defined benefit plans. It will be accounted for as defined contribution plans.

CAPE JOINT PENSION FUND

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2010 revealed that the fund is in a sound financial position with a funding level of 100% (30 June 2009 - 100%). Actuarial valuations also determined that there were a shortfall in the investment return for the 30 June 2010 financial year.

Contributions paid recognised in the Statement of Financial Performance

149,860	169,877
---------	---------

CAPE JOINT RETIREMENT FUND

The contribution rate payable is 9% by members and 18% by Council. The last actuarial valuation performed for the year ended 30 June 2010 revealed that the fund is in a sound financial position with a funding level of 100.3% (30 June 2009 - 103.3%).

Contributions paid recognised in the Statement of Financial Performance

-	-
---	---

DEFINED CONTRIBUTION PLANS

Council contribute to the Government Employees Pension Fund, Municipal Council Pension Fund, IMATU Retirement Fund and SAMWU National Provident Fund which are defined contribution funds. The retirement benefit fund is subject to the Pension Fund Act, 1956, with pension being calculated on the pensionable remuneration paid. Current contributions by Council are charged against expenditure on the basis of current service costs.

Contributions paid recognised in the Statement of Financial Performance

Government Employees Pension Fund	59,050	162,056
Municipal Councilors Pension Fund	53,193	47,950
IMATU Retirement Fund	416,486	385,760
SAMWU National Provident Fund	528,769	595,766

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

6

NON-CURRENT PROVISIONS

Provision for Rehabilitation of Landfill-sites
Total Non-current Provision Liabilities

	2011 R	2010 R
	3,169,515	2,990,109
	<u>3,169,515</u>	<u>2,990,109</u>

Landfill Sites

Balance previously reported 1 July
Change in Accounting Policy - Change in Opening Balance

Restated Balance

Contribution for the year
Expenditure for the year

	2,990,109	2,750,000 70,857
	179,407	2,820,857 169,251
	-	-

Total provision 30 June

Less: Transfer of Current Portion to Current Provisions - Note 8

Balance 30 June

	<u>3,169,515</u>	<u>2,990,109</u>
	-	-
	<u>3,169,515</u>	<u>2,990,109</u>

In terms of the licensing of the landfill refuse site, the municipality will incur rehabilitation costs in future to restore the sites at the end of their useful lives, estimated to be in 2015. Provision has been made for closing- and rehabilitation costs till date. The municipality is in process to calculate the projected cost of rehabilitation in 2015.

TOTAL NON-CURRENT PROVISIONS

Balance 1 July
Contribution for the year
Expenditure for the year
Actuarial Loss/(Gain)

	2,990,109	2,820,857 169,251
	179,407	-
	-	-

Total provision 30 June

Less: Transfer of Current Portion to Current Provisions - Note 8

Balance 30 June

	<u>3,169,515</u>	<u>2,990,109</u>
	-	-
	<u>3,169,515</u>	<u>2,990,109</u>

2011 R	2010 R
-----------	-----------

7

CONSUMER DEPOSITS

Water and Electricity

Total Consumer Deposits

	51,049	54,448
	<u>51,049</u>	<u>54,448</u>

The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.

Guarantees held in lieu of Water Deposits

-	-
---	---

2011 R	2010 R
-----------	-----------

8

CURRENT EMPLOYEE BENEFITS

Performance Bonuses
Staff Leave

Balance previously reported
Change in accounting policy - refer note

Current Portion of Non-Current Employee Benefits

Current Portion of Post Retirement Benefits - Note 6

Total Employee Benefits

	522,392	467,975
	<u>522,392</u>	<u>467,975</u>
	-	-
	104,292	98,261
	<u>104,292</u>	<u>98,261</u>
	<u>626,684</u>	<u>566,236</u>

KHALIMA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011	2010
	R	R

The movement in current provisions are reconciled as follows:

Staff Leave

Balance at beginning of year	467,975	475,941
Contribution to provision	178,094	198,864
Expenditure incurred	(123,877)	(206,629)
Balance at end of year	522,192	467,975

Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave. There is no possibility of reimbursement.

9 PROVISIONS

Current Portion of Non-Current Provisions - Note 6

Total Provisions	-	-
------------------	---	---

10 PAYABLES FROM EXCHANGE TRANSACTIONS

Payments received in advance	125,546	117,610
Retentions	901,234	-
Other Creditors	4,879,908	4,184,038
Deposits; Other	-	-
Total Trade Payables	5,906,688	4,301,648

11 UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

11.1 Conditional Grants from other spheres of Government

Unspent Grants	6,117,999	8,894,364
National and Provincial Government Grants	6,117,999	8,894,364
Correction of error - Note	-	-
Restated balance 30 June 2007	6,117,999	8,894,364
Less: Unpaid Grants	-	-
National Government Grants	-	-
Provincial Government Grants	-	-
Other Sources	-	-
Total Conditional Grants and Receipts	6,117,999	8,894,364

See appendix "F" for reconciliation of grants from other spheres of government. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld. Unspent Grants not cash-banked on 30 June 2010 amounts to R 1 096 575 (2010: R1 871 641). The remaining Unspent Grants are cash-backed by term deposits.

12 UNSPENT CONDITIONAL PUBLIC CONTRIBUTIONS AND RECEIPTS

Unspent augmentation fees from developers

	-	-
--	---	---

13 TAXES

VAT Payable
VAT Receivable

	1,341,262	402,914
--	-----------	---------

14 SHORT-TERM LOANS

The Municipality has no short term loans.

66

	Opening Balance	Transfers	Change in Accounting Policy	Additions	Revaluations	Write-off	Under Construction	Transfer to Inventory	Closing Balance	Opening Balance	Change in Accounting Policy	Additions	Revaluation	Write-off	Closing Balance	Carrying Value
Total brought forward	59,548,602	-	-	735,048	-	(913,003)	8,578,492	(13,507)	69,531,552	8,578,492	-	832,900	-	(302,559)	9,319,509	59,184,044
Housing Rental Stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Housing Rentals	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Leased Assets	114,399	-	-	99,590	-	(114,399)	-	-	99,590	110,596	-	11,666	-	(110,555)	11,666	88,324
Office Equipment	114,399	-	-	99,590	-	(114,399)	-	-	99,590	110,596	-	11,666	-	(110,555)	11,666	88,324
Other Assets	2,673,287	-	-	-	-	(12,081)	2,661,186	-	762,805	380,773	-	380,773	-	(3,071)	1,140,508	1,520,878
Landre Sites	280,156	-	-	43,375	-	(10,702)	312,829	-	100,322	45,678	-	45,678	-	(6,541)	139,456	178,373
Furniture and Fixtures	234,019	-	-	22,851	-	-	256,931	-	66,116	25,182	-	25,182	-	-	87,297	109,633
Bss and Containers	10,207	-	-	54	-	-	10,207	-	96	37	-	37	-	-	145	145
Emergency equipment	2,465,183	-	-	-	-	-	2,465,183	-	1,454	300,556	-	300,556	-	-	5,845	4,302
Motor Vehicles	396,661	-	-	97,804	-	-	494,665	-	53,819	41,882	-	41,882	-	-	201,009	293,625
Computer Equipment	200,658	-	-	173,229	-	(2,465)	366,423	-	3,455	147,220	-	147,220	-	(1,244)	44,093	322,330
Plant and Equipment	4,360,634	-	-	342,314	-	(30,247)	8,578,701	-	2,062,377	848,382	-	848,382	-	-	2,899,000	3,672,601
Total Property, Plant and Equipment	65,923,835	-	-	1,177,353	-	(457,729)	8,578,492	(13,507)	75,208,243	10,992,130	-	1,693,947	-	-	12,261,074	82,945,169

Carrying Value	Cost/Revaluation										Accumulated Depreciation									
	Opening Balance	Transfers	Change in Accounting Policy	Additions	Revaluation	Write-off	Under Construction	Transfer to Inventory	Closing Balance	Opening Balance	Change in Accounting Policy	Additions	Revaluation	Write-off	Closing Balance					
26,878,339	24,430,195	1,847,309	2,453,214	103,000	-	-	-	-	26,878,339	2,026,725	157,164	11,333	-	84,289	252,786					
1,773,910	1,773,910	-	-	-	-	-	-	-	1,773,910	-	-	-	-	-	1,773,910					
28,652,279	26,277,504	71,317	2,558,244	-	-	-	-	-	28,935,064	157,164	157,164	11,333	-	84,289	28,652,279					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-						

[illegible]

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

The leased property, plant and equipment is secured as set out in Note 5.

Land and Buildings were revalued on 1 July 2008 by an independent valuer, Vudata. Fair values were determined by reference to observable prices in the active market or recent market transactions on arm's length transactions.

The book value of Property, Plant and Equipment would have been R57,994,298 on 30 June 2011, if no revaluation took place.

Refer to Appendix B for more detail on property, plant and equipment, including those in the course of construction.

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not measure all the Property, Plant and Equipment in accordance with the standard, including the following:

- Land;
- Property, Plant and Equipment financed by way of finance leases;
- Property, Plant and Equipment transferred as a result of the transfer of functions; and
- Property, Plant and Equipment transferred as a result of the transfer of functions; and
- Componentised infrastructure assets.

The municipality is currently in a process of identifying all Property, Plant and Equipment and have it valued in terms of GRAP 17 and it is expected that this process will be completed for inclusion in the 2012 financial statements. The Municipality is in the process of itemizing all infrastructure and community assets and will recalculate accumulated depreciation once this exercise has been completed by 30 June 2012. At present depreciation on these assets is calculated on an averaging basis whereby an average useful life has been estimated for each category of infrastructure and community assets, using global historical costs recorded in the accounting records.

The municipality did not measure the following, in terms of the transitional provisions:

- Review of useful life of item of PPE recognised in the annual financial statements;
- Review of the depreciation method applied to PPE recognised in the annual financial statements;
- Review of residual values of item of PPE recognised in the annual financial statements.

KHALMA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

15

PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	2011 R	2010 R
Third party payments received for losses incurred:		
Payments received (Excluding VAT)	-	-
Carrying value of assets written off/lost	-	-
Surplus/Deficit	-	-

Impairment of property plant and equipment

	2011 R	2010 R

Impairment charges on Property, plant and equipment recognised in statement of financial performance

Land and Buildings	-	-
Infrastructure	-	-
Community Assets	-	-
Lease Assets	-	-
Heritage	-	-
Other	-	-

Cumulative Impairment charges Included in major balances

Land and Buildings	-	-
Infrastructure	-	-
Community Assets	-	-
Lease Assets	-	-
Heritage	-	-
Other	-	-

Effect of changes in accounting estimates

	2011 R	2012 R

Effect on Property, plant and equipment

	-	-
	-	-

Details of property plant and equipment carried at fair value

Reconciliation of revaluation surplus:

Opening balance	4,209,811	4,953,078
Movement for the period	(135,314)	(143,267)
Closing balance	4,074,496	4,209,811

16

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets held for sale at beginning of year - at book value
Additions for the year

	-	-
	-	-

Non-current assets sold/written off during the year

	-	-
	-	-

Non-current assets held for sale at end of year - at book value

	-	-
	-	-

Exemptions taken according to Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities -
Note 61

KHALA-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

17

INVESTMENT PROPERTY

	2011 R	2010 R
Net Carrying amount at 1 July	-	-
Cost	-	-
Accumulated Depreciation	-	-
Transfer to Property, Plant and Equipment - Note 15	-	-
Cost	-	-
Accumulated Depreciation	-	-
Acquisitions	-	-
Depreciation for the year	-	-
Net Carrying amount at 30 June	-	-
Cost	-	-
Accumulated Depreciation	-	-

Exemptions taken according to Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities - Note 61

Revenue derived from the rental of Investment property

Operating expenditure incurred on properties generating revenue

Operating expenditure incurred on properties not generating revenue

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Estimated Fair Value of Investment Property at 30 June

	2011 R	2010 R
Revenue derived from the rental of Investment property	-	-
Operating expenditure incurred on properties generating revenue	-	-
Operating expenditure incurred on properties not generating revenue	-	-
Estimated Fair Value of Investment Property at 30 June	-	-

18

INTANGIBLE ASSETS

Net Carrying amount at 1 July

Cost	428,129	-
Accumulated Amortisation	433,868 (5,539)	-
Acquisitions	23,815	433,868
Amortisation	(63,056)	(5,539)
Impairments	(2,193)	-
Disposals	-	-
Amortisation written back on disposal	-	-
Net Carrying amount at 30 June	366,695	428,129
Cost	454,851	433,868
Accumulated Amortisation	(68,156)	(5,539)

Exemptions taken according to Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities - Note 59

No intangible asset were assed having an indefinite useful life.

There are no intangible assets whose title is restricted.

There are no intangible assets pledged as security for liabilities

There are no contractual contractual commitments for the acquisition of intangible assets.

19

INVESTMENTS

Financial Instruments

Unlisted

Long term deposits

Total Investments

Long term deposits	-	-
Total Investments	-	-

No Investments have been pledged as security for any funding facilities of the council.

Investments are made in terms of the municipality's Cash Management and Investment Policy, as required by means of Regulation R 308 of 1 April 2005 gazetted in the Government Gazette No 27431 of 1 April 2005 and issued by the Minister of Finance.

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

20

LONG TERM RECEIVABLES

Staff Car Loans - At amortised cost	-	-
<u>Less:</u> Unamortised Discount on Loans	-	-
Balance 1 July		
Adjustment for the period		
Change in Accounting Policy - Note 42.3		
<u>Less:</u> Current portion transferred to current receivables		
Staff Car Loans - At amortised cost	-	-
<u>Less:</u> Provision for Impairment of Long Term Receivables	-	-
Total Long Term Receivables	-	-

21

INVENTORY

Housing-Inventory held for transfer	1,041,500	1,051,850
Materials - Housing Project	2,082,747	-
Consumable Stores	13,507	-
Water - At purification cost	17,718	14,779
Total Inventory	3,155,472	1,066,629

Consumable stores materials written down due to losses as identified during the annual stores counts.

22

TRADE RECEIVABLES FROM EXCHANGE TRANSACTIONS

Electricity	362,793	382,578
Water	2,866,170	2,207,636
Refuse	1,051,466	824,117
Sewerage	1,136,665	892,821
Recognition - Water debt	97,198	90,060
Recognition - Electricity debt	43,257	56,801
Recognition - Sewerage debt	1,069	825
Other Receivables	315,062	304,205
Total: Trade receivables from exchange transactions (before provision)	5,873,580	4,759,043
Provision for Impairments	(4,573,121)	(3,500,515)
Total: Trade receivables from exchange transactions (after provision)	1,300,459	1,258,528

The fair value of other receivables approximate their carrying value.

(Electricity, Water, Refuse and Sewerage): Ageing

Current (0 - 30 days)	-	1
Previous	586,795	516,141
31 - 60 Days	328,492	257,570
61 - 90 Days	368,451	275,324
+ 90 Days	4,133,256	3,258,115
Total	5,416,994	4,307,152

(Electricity): Ageing

Current (0 - 30 days)	-	-
Previous	139,167	-
31 - 60 Days	34,142	-
61 - 90 Days	26,477	-
+ 90 Days	163,007	-
Total	362,793	382,578

(Water): Ageing

Current (0 - 30 days)	-	-
Previous	274,355	-
31 - 60 Days	214,424	-
61 - 90 Days	259,344	-
+ 90 Days	2,118,046	-
Total	2,866,170	2,207,636

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
<u>(Refusal): Ageing</u>		
Current (0 - 30 days)	-	-
Previous	64,226	-
31 - 60 Days	36,494	-
61 - 90 Days	39,743	-
+ 90 Days	911,003	-
Total	1,051,466	824,117
<u>(Severely): Ageing</u>		
Current (0 - 30 days)	-	-
Previous	109,047	-
31 - 60 Days	43,432	-
61 - 90 Days	42,886	-
+ 90 Days	941,200	-
Total	1,136,565	892,821

Summary of Debtors by Customer Classification

	Residential	Industrial/ Commercial	National and Provincial Government
30 JUNE 2011			
Current (0 - 30 days)	-	-	-
Previous	485,256	76,293	25,247
31 - 60 Days	288,852	28,267	11,519
61 - 90 Days	340,373	19,785	8,147
+ 90 Days	3,888,929	216,313	28,014
Sub-total	5,003,409	340,657	72,928
Less: Provision for bad debts	(4,281,608)	(291,513)	-
Total debtors by customer classification	721,801	49,144	72,928

Summary of Debtors by Customer Classification

	Residential	Industrial/ Commercial	National and Provincial Government
30 JUNE 2010			
Current (0 - 30 days)	-	-	-
Previous	424,087	73,162	18,892
31 - 60 Days	242,123	11,164	4,294
61 - 90 Days	262,521	10,760	2,043
+ 90 Days	3,185,904	70,114	2,098
Sub-total	4,114,635	165,189	27,327
Less: Provision for bad debts	(3,365,405)	(135,110)	-
Total debtors by customer classification	749,230	30,079	27,327

Reconciliation of Provision for Bad Debts

Balance at beginning of year	3,500,515	4,548,711
Contribution to provision	1,077,444	2,692,637
Bad Debts (written off)	(4,838)	(3,740,832)
Balance at end of year	4,573,121	3,500,515

The total amount of this provision is R 4 573 121 and consist of:

Service Charges	4,474,847	3,500,515
Other Debtors	98,274	-
Total Provision for Bad Debts on Trade Receivables from exchange transactions	4,573,121	3,500,515

The provision for doubtful debts on debtors (loans and receivables) exists due to the possibility that not all debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial assets with similar credit risk characteristics and collectively assessed for impairment.

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

23

OTHER RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS

Taxes - Rates	2011 R	2010 R
Other Debtors	1,275,990	1,026,964
Irregular, Fruitless and Wasteful Expenditure - Receivables	318,765	723,725
Suspense Accounts	32,917	32,917
VAT	56,468	75,543

Less: Provision for bad debts

Total Other Receivables from non-exchange transactions

The fair value of other receivables approximate their carrying value.

(Rates): Ageing

Current (0 - 30 days)		
Previous	44,707	1
31 - 60 Days	20,844	35,290
61 - 90 Days	57,601	16,275
+ 90 Days	1,153,139	14,722
Total	1,275,990	960,676
		1,026,964

Summary of Debtors (Rates) by Customer Classification

30 JUNE 2011

Current (0 - 30 days)		
Previous	32,101	121
31 - 60 Days	12,528	121
61 - 90 Days	46,588	148
+ 90 Days	1,026,101	3,889
Sub-total	1,117,299	4,278
<u>Less:</u> Provision for bad debts	(570,853)	
Total debtors by customer classification	546,446	4,278

Residential	Industrial/ Commercial	National and Provincial Government
-------------	---------------------------	--

Summary of Debtors (Rates) by Customer Classification

30 JUNE 2010

Current (0 - 30 days)		
Previous	25,788	224
31 - 60 Days	11,410	223
61 - 90 Days	9,881	237
+ 90 Days	890,643	4,749
Sub-total	937,721	5,433
<u>Less:</u> Provision for bad debts	(139,459)	
Total debtors by customer classification	798,263	5,433

Residential	Industrial/ Commercial	National and Provincial Government
-------------	---------------------------	--

Reconciliation of Provision for Bad Debts

Balance at beginning of year	151,923
Contribution to provision	497,823
Bad Debts (written off)	-
Balance at end of year	649,746

2011 R	2010 R
--------	--------

The total amount of this provision is R 616 630 and consist of:

Rates	649,746	151,923
Total Provision for Bad Debts on Trade Receivables from non-exchange transactions	649,746	151,923

The provision for doubtful debts on debtors (loans and receivables) exists due to the possibility that not all debts will be recovered. Loans and receivables were assessed individually and grouped together at the Statement of Financial Position date as financial assets with similar credit risk characteristics and collectively assessed for impairment.

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

Concentrations of credit risk with respect to trade receivables are limited due to the municipality's large number of customers. The municipality's historical experience in collection of trade receivables falls within recorded allowances. Due to these factors, management believes that no additional risk beyond amounts provided for collection losses is inherent in the municipality's trade receivables.

		2011 R	2010 R
24	OPERATING LEASE ARRANGEMENTS		
24.1	The Municipality as Lessee		
	Leases not previously recognised - Note	-	-
	Balance on 30 June	-	-
	At the Statement of Financial Position date, where the municipality acts as a lessee under operating leases, it will pay operating lease expenditure as follows:		
	Up to 1 Year	-	-
	1 to 5 Years	-	-
	More than 5 Years	-	-
	Total Operating Lease Arrangements	-	-
	Reconciliation		
	Amount previously recorded (Through change in accounting policy)	-	-
	Change in accounting policy - Note	-	-
	Movement during the year	-	-
	Balance on 30 June	-	-
24.2	The Municipality as Lessor		
	Leases not previously recognised - Note	-	-
	Balance on 30 June	-	-
	At the Statement of Financial Position date, where the municipality acts as a lessor under operating leases, it will receive operating lease income as follows:		
	Up to 1 Year	80,787	82,470
	1 to 5 Years	359,521	287,319
	More than 5 Years	-	-
	Total Operating Lease Arrangements	440,308	369,789
	Reconciliation		
	Amount previously recorded (Through change in accounting policy)	-	-
	Change in accounting policy - Note	-	-
	Movement during the year	-	-
	Balance on 30 June	-	-
25	CASH AND CASH EQUIVALENTS		
	Assets		
	Call Investments Deposits	6,750	9,242
	Watersupply Polder (007)	616,285	29,941
	Municipal System Improvement Grant (007)	-	-
	Leave Gratuity (007)	42,727	14,296
	Library (007)	13,362	13,362
	Housingfund (007)	41,764	41,764
	Refuse Site (007)	24,751	24,751
	LGSETA (007)	200,000	200,000
	Other Deposits	9,181	9,181
	NDFT Fencing of graveyards (007)	-	-
	SKEP -Hikingtrail (007)	154,151	-
	Namakwa District Municipality	171,892	-
	Project Nala	-	0
	Build of 30 Houses (013)	-	-
	Municipal Infrastructure Grant (007)	3,676,263	6,633,471
	Finance Management Grant (010)	-	2,296
	Municipal Infrastructure Grant (L-Gov) 016	64,318	244,425
	Primary Bank Account	287,220	-
	Cash Floats	100	100
	Total Cash and Cash Equivalents - Assets	5,308,745	7,222,829
	Liabilities		
	Primary Bank Account	-	729,687
	Total Cash and Cash Equivalents - Liabilities	-	729,687

Call Investments Deposits are held to fund the Unspent Conditional Grants.

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The municipality has the following bank accounts:		
<u>Current Accounts</u>	2011	2010
	R	R
Standard Bank Limited ~ Pofadder Branch Account Number 04 185 0173		
	287 220	(729 687)
	<u>287 220</u>	<u>(729 687)</u>
 <i>Standard Bank Limited ~ Pofadder Branch Account Number 04 185 0173</i>		
Cash book balance at beginning of year	(729 687)	(555 619)
Cash book balance at end of year	<u>287 220</u>	<u>(729 687)</u>
Bank statement balance at beginning of year	(640 411)	(503 537)
Bank statement balance at end of year	<u>616 364</u>	<u>(640 411)</u>

The Municipality has a bank overdraft facility of R700.000.
R200.000 of the call account balance is pledged as security for the overdraft facility..

26

PROPERTY RATES

Actual

Rateable Land and Buildings
Residential / Commercial Property
Agricultural Purposes
State - National / Provincial Services
Less: Rebates

Total Assessment Rates

Valuations - 1 JULY 2010

Rateable Land and Buildings
Residential / Commercial Property
Agricultural Purposes
State - National / Provincial Services
Less: Income Forgone

Total Assessment Rates

The applicable rates that are applied to property valuations to determine assessment rates are as follows:-
Agricultural land - 0.000903 cents per rand, land and improvements -0.024 cents per rand. A discount of 20% was granted to the State

27

GOVERNMENT GRANTS AND SUBSIDIES

Equitable share
DWAF operating grants
DWAF capital grants
Finance management grant
Library
NDM operating grant
NDM capital grant
MSIG
Extension Library
MIG- Upgrading of sewerage
MIG - Project Management Unit
Department of Housing and Local Government
COGSTA - Nala Project
EPWP
Department of Housing and Local Government; Housing
DBSA-Hiking trail
LG Seta
Other grants

Total Government Grants and Subsidies

The municipality does not expect any significant changes to the level of grants.

Unspent conditional Dora, specific grants are instructed by use to conditions contain in the grant business plan where the grants are unspent or not committed such funds will be reversed back to National Treasury.

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive 6kl free water and 50kwh free electricity per month, which is funded from this grant.

28

PUBLIC CONTRIBUTIONS AND DDNATIONS

Black Mountain
BVI Engineers

29 CONTRIBUTED PROPERTY, PLANT AND EQUIPMENT

Karsten Farming - Building

8 568 835	7 818 958
3 047 914	2 732 881
<u>5 550 920</u>	<u>5 086 078</u>
(6 808 597)	(6 216 815)
<u>1 790 238</u>	<u>1 869 263</u>
358 284 780	355 326 530
118 275 230	238 614 980
<u>231 069 650</u>	<u>108 508 950</u>
8 939 900	8 202 600
<u>(283 691 529)</u>	<u>(282 566 338)</u>
<u>74 593 251</u>	<u>72 760 192</u>

9 566 229	7 682 876
23 213	15 450
<u>2 558 934</u>	<u>2 027 716</u>
216 910	199 082
102 810	518 789
878 892	621 428
124 795	220 059
85 306	196 530
7 209 361	259 375
52 000	-
160 442	72 921
113 440	-
14 508	206 015
<u>7 815 540</u>	<u>12 169</u>
-	21 458
289 440	-
<u>29 211 620</u>	<u>12 053 865</u>

260 382	1 000
-	2 000
<u>260 382</u>	<u>3 000</u>
-	-
-	103 000
-	<u>103 000</u>

KHAI-M/A MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 R	2010 R
30	CHANGES IN FAIR VALUE		
30.1	Transactions that gives an Increase in surplus		
	Fair value changes in Investment Properties		
	Unamortised discount - Interest	-	-
	Total changes in fair value		
30.2	Transactions that gives an decrease in surplus		
	Unamortised discount - Interest		
	Fair value changes in Investment Properties	-	-
	Total changes in fair value		
31	OTHER REVENUE FROM NON-EXCHANGE TRANSACTIONS		
	None		
32	SERVICE CHARGES		
	Electricity	3,341,144	2,905,149
	Service Charges	3,674,920	3,151,617
	Less: Income Forgone	(333,776)	(246,468)
	Water		
	Service Charges	1,553,703	1,112,142
	Less: Income Forgone	4,519,013	3,558,322
		(3,165,311)	(2,546,180)
	Refuse Removal		
	Service Charges	422,216	377,429
	Less: Income Forgone	1,503,817	1,317,431
		(1,081,602)	(940,002)
	Sewerage and Sanitation Charges		
	Service Charges	506,930	575,806
	Less: Income Forgone	1,655,958	1,534,708
		(1,049,028)	(958,902)
	Other Service Charges - Private Works		
	Total Service Charges	5,723,992	4,970,526
33	OTHER INCOME		
	Tariff Charges other	1,121,021	248,568
	Sale of even	-	-
	Total Other Income	1,121,021	248,568
34	UNAMORTISED DISCOUNT - INTEREST		
	Annuity Loans - Note 4	451,718	498,930
	Total Unamortised Discount - interest	451,718	498,930

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

35

EMPLOYEE RELATED COSTS

Employee Related Costs - Salaries and Wages		
Employee Related Costs - Contributions for UIF, Pensions and Medical Aids		
Travel, Motor Car, Accommodation, Subsistence and Other Allowances		
Housing Benefits and Allowances		
Overtime Payments		
Bonuses		
Provision for leave		
Provision for leave		
Contribution to provision - Post Retirement Medical - Note 8		
	4,027,422	3,500,659
	663,596	614,515
	290,612	368,325
	18,395	29,015
	393,391	260,688
	228,129	225,445
	178,094	198,564
	(27,968)	-
	5,769,670	5,171,013
Less: Employee Costs allocated elsewhere	-	-
Total Employee Related Costs	5,769,670	5,171,013

KEY MANAGEMENT PERSONNEL

Key management personnel are all appointed on 5-year fixed contracts. There are no post-employment or termination benefits payable to them at the end of the contract periods.

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration of the Municipal Manager

Annual Remuneration	240,000	299,977
Performance Bonuses	-	-
Bonus	-	18,328
Leave Pay	-	71,013
Car Allowance	-	29,012
Housing benefits and other allowances	4,000	8,440
Contributions to UIF, Medical and Pension Funds	499	18,439
Total	244,499	445,207

Remuneration of the Chief Finance Officer

Annual Remuneration	225,085	207,490
Performance Bonuses	-	-
Bonus	18,757	16,908
Leave Pay	54,921	-
Car Allowance	94,482	93,150
Housing benefits and other allowances	5,883	5,883
Contributions to UIF, Medical and Pension Funds	72,998	66,175
Total	471,326	389,406

Remuneration of Director : Community and Social Services

Annual Remuneration	-	129,331
Performance Bonuses	-	-
Bonus	-	18,536
Car Allowance	-	43,097
Leave Pay	-	34,097
Housing benefits and other allowances	-	11,209
Contributions to UIF, Medical and Pension Funds	-	988
Total	-	237,268

Remuneration of Director : Corporate and Support Services

Annual Remuneration	-	194,971
Performance Bonuses	-	49,250
Bonus	-	15,888
Car Allowance	-	81,912
Leave Pay	-	60,248
Housing benefits and other allowances	-	16,899
Contributions to UIF, Medical and Pension Funds	-	1,497
Total	-	420,665

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2011 R	2010 R
36		
REMUNERATION OF COUNCILLORS		
Mayor	349,782	337,639
Councillors	632,447	558,820
Travelling Allowances	335,770	311,513
Cell Phone Allowances	81,010	71,489
Total Councillors' Remuneration	1,399,009	1,279,461
<i>In-kind Benefits</i>		
The Executive Mayor, Executive Deputy Mayor, Speaker and Executive Committee Members are full-time Councillors. Each is provided with an office and shared secretarial support at the cost of the Municipality. The Executive Mayor may utilise official Council transportation when engaged in official duties.		
37		
DEBT IMPAIRMENT		
Trade Receivables from exchange transactions - Note 22	1,077,444	2,692,637
Long-term Receivables - Note 20	-	-
Other Receivables from non-exchange transactions - Note 23	497,823	3,845
Total Contribution to Bad Debts Provision	1,575,267	2,696,483
38		
IMPAIRMENT LOSS/(REVERSAL OF IMPAIRMENT LOSS)		
Intangible Assets	2,193	-
Inventory	10,350	3,700
	<u>12,543</u>	<u>3,700</u>
39		
FINANCE CHARGES		
Long-term Liabilities	44,328	70,666
Employee Benefits	217,538	201,741
Rehabilitation of Landfill Sites	179,407	169,251
Overdraft Facilities	6,244	88,922
Total finance charges	447,516	530,571
40		
BULK PURCHASES		
Electricity	2,666,292	2,102,689
Water	1,336,700	1,061,215
Total Bulk Purchases	4,002,992	3,163,904
41		
GRANTS AND SUBSIDIES PAID		
Grants-in-aid and Donations	-	-
Institutions	-	-
Total Grants and Subsidies	-	-
42		
GENERAL EXPENSES		
Advertisements	26,434	7,936
Audit Fees	899,692	459,071
Bank Charges	97,995	93,983
Cleansing	13,710	10,638
Commission - sale of electricity	29,810	22,048
Electricity	625,410	526,889
Fuel Vehicles	449,885	367,315
Insurance	354,907	298,912
Legal Fees	63,689	393,055
Materials	77,789	75,743
Membership Fees	107,711	117,855
Postage and Telephone	302,653	285,010
Printing and Stationary	127,465	95,891
Travel Expenses	478,394	451,965
Uniforms and Protective Clothing	20,915	11,268
Other Projects	9,054,514	2,671,483
Total General Expenses	12,730,572	5,889,093

KHAL-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

	2010 R	2009 R
43		
CHANGE IN ACCOUNTING POLICY		
43.1		
Non-Current Provisions	2,986,727	2,750,000
Balance previously reported		
Implementation of GRAP	(238,727)	-
Reversal of current year contribution - Statement of Financial Performance	169,251	-
Revised current year contribution - Statement of Financial Performance	70,857	70,857
Change in the method used to calculate the Provision for Rehabilitation of Landfill Sites		
Restated Balance	<u>2,990,109</u>	<u>2,820,857</u>
43.2		
Property, Plant and Equipment - Cost Price		
Balance previously reported	60,706,203	59,304,229
First-time recognition of Landfill Site	2,661,186	2,661,186
First-time recognition of Land received from other government departments	2,453,244	2,453,244
Measurement of contributed PPE previously recognised at provisional amounts	103,000	103,000
Total	<u>65,923,633</u>	<u>64,521,659</u>
43.3		
Property, Plant and Equipment - Accumulated Depreciation		
Balance previously reported	(14,831,944)	(13,404,535)
Implementation of GRAP		
Accumulated depreciation with regards to Landfill Site recognised for the first time	(380,169)	(380,169)
Revised current year depreciation - Statement of Financial Performance	(380,169)	-
Backlog depreciation recognised with regards to Infrastructure assets	4,596,479	4,596,479
Accumulated depreciation with regards to other loose assets restated	5,201	5,201
Revised current year depreciation - Statement of Financial Performance	(1,525)	-
Total	<u>(10,992,128)</u>	<u>(9,183,024)</u>
43.4		
Accumulated Surplus		
Balance previously reported	33,561,168	35,106,051
Accumulated depreciation with regards to Landfill Site recognised for the first time	(380,169)	(380,169)
Revised current year depreciation - Statement of Financial Performance	(380,169)	-
Backlog depreciation recognised with regards to Infrastructure assets	4,596,479	4,596,479
Accumulated depreciation with regards to other loose assets restated	5,201	5,201
Measurement of contributed PPE previously recognised at provisional amounts	103,000	-
Correction of Offset Depreciation of Revaluation Reserve - prior to 1 July 2009	5,133	5,133
Correction of Offset Depreciation of Revaluation Reserve - 2009/2010	(32,684)	-
Revised current year depreciation - Statement of Financial Performance	(1,525)	-
First-time recognition of Land received from other government departments	2,453,244	2,453,244
Derecognition of previous provision for rehabilitation of Landfill Site	2,750,000	2,750,000
Reversal of current year contribution - Statement of Financial Performance	238,727	-
Revised current year contribution - Prior Financial Year	(169,251)	-
Revised prior period contributions to provision for rehabilitation of Landfill Site	(159,671)	(159,671)
Total	<u>42,589,481</u>	<u>44,376,267</u>
44		
RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS		
Surplus/(Deficit) for the year	9,489,970	(1,929,332)
Adjustments for:		
Depreciation and amortisation	1,756,003	1,821,687
Impairments	12,543	-
Less on disposal of Property, Plant and Equipment	33,726	135
Contribution from/to provisions - Non-Current	179,407	169,251
Contribution from/to Employee Benefits - Current	178,094	198,664
Contribution from/to Employee Benefits - Current - Expenditure Incurred	(123,677)	(206,629)
Contribution from/to Employee Benefits - Non-Current	287,831	266,103
Contribution from/to Employee Benefits - Non-Current - Expenditure Incurred	(98,261)	(91,260)
Contribution to provisions - Bad debt	474,957	-
Bad Debt written off	1,575,267	2,696,483
Unamortised discount - Interest - Expenditure	(4,838)	(5,148,877)
Investment Income	451,718	498,930
Interest paid	(423,934)	(243,593)
	447,516	530,571
Operating Surplus/(Deficit) before changes in working capital	<u>14,236,323</u>	<u>(1,437,867)</u>
Changes in working capital	(5,134,887)	8,194,404
Increase/(Decrease) in Trade and Other Payables	1,505,041	(755,937)
Increase/(Decrease) in Unspent Conditional Government Grants and Receipts	(2,776,355)	6,143,703
Increase/(Decrease) in Taxes	(938,348)	(78,576)
(Decrease)/Increase in Housing development fund	-	-
(Increase)/Decrease in Inventory	(2,085,687)	(2,995)
(Increase)/Decrease in Trade Receivables from exchange transactions	(1,114,536)	2,223,934
(Increase)/Decrease in Other Receivables from non-exchange transactions	175,009	664,275
Cash generated/(absorbed) by operations	<u>9,101,436</u>	<u>6,756,536</u>

KHAL-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

		2011 R	2010 R
45	CASH AND CASH EQUIVALENTS		
	Cash and cash equivalents included in the cash flow statement comprise the following:		
	Call Investments Deposits - Note 25	5,021,424	7,222,729
	Cash Floats - Note 25	100	100
	Bank - Note 25	287,220	-
	Bank Balance / (Bank overdraft) - Note 25	-	(729,687)
	Total cash and cash equivalents	5,308,745	6,493,142
46	CASH RECONCILIATION		
	Cash and Cash Equivalents - Note 25	5,308,745	6,493,142
	Investments - Note 19	-	-
	Less:		
	Unspent Committed Conditional Grants - Note 11		
	Unspent Public Contribution - Note 12	5,308,745	6,493,142
	VAT - Note 13	6,132,077	8,907,726
	Cash Portion of Housing Development Fund - Note 2		
	Net cash resources available for internal distribution	6,117,999	8,894,364
	Allocated to:	-	-
	Capital Replacement Reserve	14,078	13,362
	Resources available for working capital requirements	(823,333)	(2,414,584)
		(823,333)	(2,414,584)
47	UTILISATION OF LONG-TERM LIABILITIES RECONCILIATION		
	Long-term Liabilities - Note 4	490,792	971,985
	Used to finance property, plant and equipment - at cost	(490,792)	(971,985)
		-	-
	Cash set aside for the repayment of long-term liabilities	-	-
	Cash Invested for repayment of long-term liabilities	-	-
	Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act		

KHAI-MA MUNICIPALITY

48 BUDGET COMPARISONS NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

48.1	Operational	2011 R (Actual)	2011 R (Budget)	2011 R (Variance)	2011 (%)
	Revenue by source				
	Property Rates	1,790,238	1,713,630	76,608	4.47%
	Government Grants and Subsidies	29,271,620	44,647,640	(15,436,020)	-34.57%
	Public Contributions and Donations	260,382	500,000	(239,618)	-47.92%
	Fines	21,435	40,000	(18,565)	-46.41%
	Third Party Payments	-	-	-	0.00%
	Stock Adjustments	-	-	-	0.00%
	Actuarial Gains	-	-	-	0.00%
	Property Rates - Penalties & Collection Charges	-	-	-	0.00%
	Service Charges	5,723,982	8,569,020	(2,845,038)	-33.20%
	Rental of Facilities and Equipment	118,100	96,000	22,100	23.02%
	Interest Earned - External Investments	423,934	300,000	123,934	41.31%
	Interest Earned - Outstanding Debtors	617,326	452,000	165,326	36.58%
	Licences and Permits	24,265	16,200	8,065	49.79%
	Agency Services	104,707	100,000	4,707	4.71%
	Other Revenue	1,121,021	43,600	1,077,421	2471.15%
	Unamortised Discount - Interest	-	-	-	0.00%
	Dividends Received	-	-	-	0.00%
	Contributed PPE	-	2,453,250	(2,453,250)	-100.00%
		39,417,020	58,931,340	(19,514,320)	-19.84%
	Expenditure by nature				
	Employee related costs	(5,769,670)	(6,305,940)	536,270	-8.50%
	Remuneration of Councillors	(1,399,009)	(1,523,510)	124,501	-8.17%
	Debt Impairment	(1,575,267)	(1,570,080)	(5,187)	0.33%
	Collection costs	-	-	-	-100.00%
	Increase in Provision for Rehabilitation of Landfill Site	-	(200,000)	200,000	18.44%
	Depreciation and Amortisation	(1,756,003)	(1,482,550)	(273,453)	-15.44%
	Impairments	-	-	-	-
	Repairs and Maintenance	(1,015,061)	(1,038,560)	23,499	-2.28%
	Unamortised discount - Interest	(451,718)	(451,720)	2	0.00%
	Actuarial losses	(474,957)	-	(474,957)	0.00%
	Finance Charges	(447,516)	(275,340)	(172,176)	62.53%
	Bulk Purchases	(4,002,992)	(4,085,000)	82,008	-2.01%
	Contracted Services	(210,313)	(220,000)	9,687	-4.40%
	Grants and Subsidies Paid	-	-	-	-
	Donations	(47,702)	(49,500)	1,798	-3.63%
	General Expenses	(12,730,572)	(22,934,290)	10,203,718	-44.49%
	Changes in Fair Value	-	-	-	-
		(29,880,781)	(40,136,490)	10,255,709	-25.55%
	Other Gains/Losses				
	Loss on disposal of Property, Plant and Equipment	(33,726)	-	(33,726)	-
	Impairment Loss/(Reversal of Impairment Loss)	(12,543)	-	(12,543)	-
		(46,269)	-	(46,269)	-
	Net Surplus for the year	9,489,970	18,794,850	(9,304,880)	-49.51%

Details of material variances

Due to service providers not being able to deliver material on-time the housing projects were not completed and therefor the under expenditure occurred.

48.2 Expenditure by Vote

Municipal Manager	(2,534,065)	(2,667,870)	133,805	-5.02%
Finance	(4,601,504)	(6,286,220)	1,684,716	-26.92%
Corporate Services	(5,316,731)	(5,168,710)	(148,021)	2.86%
Infrastructure	(13,105,744)	(13,044,090)	(61,654)	0.47%
Economic Development	(6,037,199)	(14,636,560)	8,599,351	-58.75%
Less Internal Charges	1,668,192	1,676,950	(8,758)	-0.52%
	(29,927,050)	(40,136,490)	10,209,440	-25.44%

Details of material variances

Due to service providers not being able to deliver material on-time the housing projects were not completed and therefor the under expenditure occurred.

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

48.3	Capital expenditure by vote	2011 R	2011 R	2011 R	2011 (%)
		(Actual)	(Budget)	(Variance)	
	Municipal Manager	352,705	364,000	(11,295)	-3.10%
	Finance	-	2,453,250	(2,453,250)	-100.00%
	Corporate Services	574,055	2,322,500	(1,748,445)	-75.28%
	Infrastructure	8,827,094	14,216,360	(5,389,276)	-37.91%
	Economic Development	-	-	-	0.00%
		<u>9,753,844</u>	<u>19,356,110</u>	<u>(9,602,266)</u>	<u>-49.61%</u>

Details of material variances

Under expenditure due to projects being rolled over to next financial year.

49

UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE DISALLOWED

49.1	Unauthorised expenditure	2011 R	2011 R	2011 R	2011 (%)
		(Actual)	(Budget)	(Variance)	
	Reconciliation of unauthorised expenditure:				
	Opening balance				
	Unauthorised expenditure current year				
	Approved by Council or condoned				
	Transfer to receivables for recovery				
	Unauthorised expenditure awaiting authorisation				
		2,651,419	209,674	2,651,419	2,651,419
		(2,651,419)	-	-	-
		<u>209,674</u>	<u>2,651,419</u>	<u>2,651,419</u>	<u>2,651,419</u>

49.2

Fruitless and wasteful expenditure

Reconciliation of fruitless and wasteful expenditure:

Opening balance
Fruitless and wasteful expenditure current year
Condoned or written off by Council
Transfer to receivables for recovery - not condoned
Fruitless and wasteful expenditure awaiting condonement

811,486	543,932
-	273,098
(811,486)	(5,544)
-	-
<u>811,486</u>	<u>811,486</u>

49.3

Irregular expenditure

Reconciliation of irregular expenditure:

Opening balance
Irregular expenditure current year
Condoned or written off by Council
Transfer to receivables for recovery - not condoned
Irregular expenditure awaiting condonement

18,727,815	15,744,595
7,265,251	2,983,221
(18,727,815)	-
-	-
<u>7,265,251</u>	<u>18,727,815</u>

Incident	Disciplinary steps/criminal proceedings
Over expenditure of approved budget for the current financial year - R209 674	To be investigated

Incident	Disciplinary steps/criminal proceedings
Interest paid to Supplier: Eskom - R4 139	Approved by council
Donations made not allowed in terms of the MFMA - R88 044	Approved by council
Licel Fees - R205,055 (2009; R538,388)	Approved by council
Additional payment to MD Paavo - R1 405	Approved by council

Incident	Disciplinary steps/criminal proceedings
Payment made to employee, without renewal of contract - R231 706	To be investigated
Unspent grants of R1 424 233 was not cash-backed on 30 June 2011. These grants was used to finance operating expenditure. The funds were paid back and invested during July 2011.	Funds were paid back and invested during July 2011.
Appointment of supplier by former Accounting Officer without following supply chain management procedures - R5 609 311	Under investigation

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

50

ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

Contributions to organised local government - MFMA 125 (1)(b) - SALGA CONTRIBUTIONS

50.1	<p>Opening balance</p> <p>Council subscriptions</p> <p>Amount paid - current year</p> <p>Amount paid - previous years</p> <p>Balance unpaid (included in creditors)</p>	<p>-</p> <p>107,710</p> <p>(107,710)</p> <p>-</p>	<p>-</p> <p>109,838</p> <p>(109,838)</p> <p>-</p>
50.2	<p><u>Audit fees - MFMA 125 (1)(b)</u></p> <p>Opening balance</p> <p>Current year audit fee</p> <p>External Audit - Auditor-General</p> <p>Internal Audit</p> <p>Audit Committee</p> <p>Amount paid - current year</p> <p>Amount paid - previous year</p> <p>Balance unpaid (included in creditors)</p>	<p>1,401,530</p> <p>999,809</p> <p>999,809</p> <p>-</p> <p>(270,034)</p> <p>2,131,305</p>	<p>1,375,690</p> <p>523,341</p> <p>523,341</p> <p>-</p> <p>(497,501)</p> <p>1,401,530</p>
50.3	<p><u>VAT - MFMA 125 (1)(b)</u></p> <p>Opening balance</p> <p>Amounts received - current year</p> <p>Amounts claimed - current year (payable)</p> <p>Amount paid - current year</p> <p>Amount paid - previous year</p> <p>Closing balance</p>	<p>402,914</p> <p>(1,506,886)</p> <p>2,445,034</p> <p>-</p> <p>-</p> <p>1,341,262</p>	<p>-</p> <p>-</p> <p>370,605</p> <p>(370,605)</p> <p>-</p> <p>402,914</p>
50.4	<p><u>PAYE and UIF - MFMA 125 (1)(b)</u></p> <p>Opening balance</p> <p>Current year payroll deductions</p> <p>Amount paid - current year</p> <p>Balance unpaid (included in creditors)</p>	<p>-</p> <p>950,663</p> <p>(950,663)</p> <p>-</p>	<p>-</p> <p>370,605</p> <p>(370,605)</p> <p>-</p>
50.5	<p><u>Pension and Medical Aid Deductions - MFMA 125 (1)(b)</u></p> <p>Opening balance</p> <p>Current year payroll deductions and Council Contributions</p> <p>Amount paid - current year</p> <p>Amount paid - previous year</p> <p>Balance unpaid (included in creditors)</p>	<p>-</p> <p>1,013,012</p> <p>(1,013,012)</p> <p>-</p> <p>-</p>	<p>-</p> <p>995,246</p> <p>(995,246)</p> <p>-</p> <p>-</p>
50.6	<p><u>Councillor's arrears consumer accounts - MFMA 125 (1)(b)</u></p>		

The following Councillors had arrear accounts for more than 90 days as at 30 JUNE 2011:

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

The following Councillors had arrear accounts for more than 90 days as at:

30th June 2010

Councillor M. Groenewaldt				
Councillor S.S. Brandt				
Councillor J.J. Swartboof				
Councillor A.E. Diergaardt				
	Total	Outstanding less than 90 days	Outstanding more than 90 days	
		852	4,526	
		5,478	1,573	
		2,116	248	
		549	6,683	
		7,596		

Highest Amount Outstanding

Councillor M. Bruntjies

Ageing

90 days +

6,683

The following Councillors had arrear accounts outstanding for more than 90 days during the year:

30th June 2011

	Total	Outstanding less than 90 days	Outstanding more than 90 days	
Councillor S. Megerman	4,231	635	3,596	
Councillor A.J. Jonas	3,070	77	2,993	
Councillor L.H. van Rooi	4,388	113	4,275	
Councillor S. Basson	7,596	266	6,683	
Councillor S. April	8,761	986	7,775	
	Highest Amount Outstanding	Ageing		
		90 days +		
	7,775			

Councillor S. April

50.7 Non-compliance with Chapter 14 of the Municipal Finance Management Act

Non-compliance to the Supply Chain Management Regulations were identified on the following categories:

	Less than R30,000	Between R30,001 and R200,000	Between R200,001 and R2,000,000	More than R2,000,001
Springbok Motor Rewinds	51,721	-	-	-
W.J. van Zyl	-	168,792	-	-
KLK	120,398	-	-	-
Vollex	7,440	-	-	-
Viking Pony Africa Pumps	23,365	-	-	-
Antrag Adrico	57,150	-	-	-
Plant Serve Engineering	58,298	-	-	-
	318,372	168,792	-	-

50.8 Material losses – IMFMA 125(2)(d)1

The following material distribution losses incurred during the year:

	2011 R	2010 R
Water (%)	16,00	17,00
Water (Rand Value)	617,895	556,624
Electricity (%)	13,00	13,11
Electricity (Rand Value)	573,447	507,384

The municipality provides water services to indigent consumers. Consumptions used by indigent consumers are more than the free 6kl water they received. No action was taken to recover the additional consumptions from indigent consumers and based on history, outstanding amounts are not paid by indigent consumers. The cost to provide these services amounts to:

	743,744	722,380
--	---------	---------

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

51

CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

Approved and contracted for:

Infrastructure
Community
Other

Approved but not yet contracted for

Infrastructure
Community
Other

Total

This expenditure will be financed from:

External Loans
Government Grants
Own Resources
District Council Grants

2011 R

2010 R

6,876,001	-
6,876,001	-
-	-
-	-
-	-
-	-
-	-
6,876,001	-
-	-
-	-
6,876,001	-
-	-
-	-
-	-
6,876,001	-

52

FINANCIAL RISK MANAGEMENT

The activities of the municipality expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

(a) Foreign Exchange Currency Risk

The municipality does not engage in foreign currency transactions.

(b) Price Risk

The municipality is not exposed to price risk.

(c) Interest Rate Risk

As the municipality has significant interest-bearing liabilities, the entity's income and operating cash flows are substantially dependent on changes in market interest rates.

The municipality analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The municipality did not hedge against any interest rate risks during the current year.

The potential impact on the entity's surplus/deficit for the year due to changes in interest rates were as follow:

0.5% (2010 - 0.5%) Increase in interest rates
0.5% (2010 - 0.5%) Decrease in interest rates

23,438
(23,438)

KHAI-MIA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(d) Credit Risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the Municipality to incur financial loss.

Credit risk arises mainly from cash and cash equivalents, instruments and deposits with banks and financial institutions, as well as credit exposures to consumer and grant debtors.

Trade and other debtors are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of a large number of ratepayers, dispersed across different sectors and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Credit risk pertaining to trade and other debtors is considered to be moderate due to the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the municipality effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Council endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy.

All rates and services are payable within 30 days from invoice date. Refer to note 20 for all balances outstanding longer than 30 days. These balances represent all debtors at year end which defaulted on their credit terms. Also refer to note 20 for balances included in receivables that were re-negotiated for the period under review.

No trade and other receivables are pledged as security for financial liabilities.

Due to the short term nature of trade and other receivables the carrying value disclosed in note 20 of the financial statements is an approximation of its fair value. Interest on overdue balances are included at prime lending rate plus 1% where applicable.

The provision for bad debts could be allocated between the different classes of debtors as follows:

	2011 %	2011 R	2010 %	2010 R
Electricity		306,276	1.12%	41,051
Water	5.86%	2,419,671	75.58%	2,760,487
Refuse	46.33%	687,666	10.93%	399,387
Sewerage	17.00%	959,503	5.20%	299,631
Taxes - Rates	18.37%	649,745	4.16%	151,923
	12.44%			
	100.00%	5,222,868	100.00%	3,652,439

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

Financial assets exposed to credit risk at year end are as follows:

Investments		
Long Term Receivables	-	-
Trade receivables from exchange transactions	1,300,459	1,258,528
Other receivables from non-exchange transactions	1,034,394	1,707,227
Current Portion of Long-term Receivables	-	-
Short-term Investment Deposits	5,021,424	7,222,729
Bank and Cash Balances	287,320	100
Maximum Credit Risk Exposures	7,643,598	10,188,584

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

(d) Liquidity Risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, the availability of funding from an adequate amount of committed credit facilities.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

2011	Less than 1 year	Between 1 and 5 years	Between 5 and 10 years	More than 10 years
Long Term liabilities	25,992	88,806	-	-
Capital repayments	16,965	73,942	-	-
Interest	9,027	14,864	-	-
Trade and Other Payables	5,906,688	-	-	-
Unspent conditional government grants and receipts	6,117,999	-	-	-
	12,050,680	88,806	-	-
2010				
Long Term liabilities	629,561	418,772	-	-
Capital repayments	588,905	408,904	-	-
Interest	40,657	9,867	-	-
Trade and Other Payables	4,301,648	-	-	-
Unspent conditional government grants and receipts	8,894,364	-	-	-
	13,825,574	418,772	-	-

53

FINANCIAL INSTRUMENTS

In accordance with GRAP 104 the financial assets of the municipality are classified as follows:

Financial Assets	Classification	2011 R	2010 R
Investments			
Fixed Deposits	Financial Instruments at amortised cost	-	-
Long-term Receivables	Financial Instruments at amortised cost	-	-
Staff Loans			
Consumer Debtors			
Trade receivables from exchange transactions	Financial Instruments at amortised cost	1,300,459	1,258,528
Other receivables from non-exchange transactions	Financial Instruments at amortised cost	1,034,394	1,707,227
Current Portion of Long-term Receivables			
Staff Loans	Financial Instruments at amortised cost	-	-
Short-term Investment Deposits			
Call Deposits	Financial Instruments at amortised cost	5,021,424	7,222,729
Bank Balances and Cash			
Bank Balances	Financial Instruments at amortised cost	287,220	-
Cash Floats and Advances	Financial Instruments at amortised cost	100	100
Financial Liability	Classification		
Non-Current Liabilities			
Long-term Liabilities	Financial Instruments at amortised cost	490,792	971,985
Current Liabilities			
Trade and other payables	Financial Instruments at amortised cost	5,906,688	4,301,648
Unspent Conditional Grants	Financial Instruments at amortised cost	6,117,999	8,894,364
Consumer Deposits	Financial Instruments at amortised cost	51,049	54,448
Bank Balances and Cash			
Bank Balances	Financial Instruments at amortised cost	-	729,687

KHAI-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

SUMMARY OF FINANCIAL ASSETS

Financial Instruments at amortised cost

2011 R	2010 R
7,643,598	10,188,584
<u>7,643,598</u>	<u>10,188,584</u>

SUMMARY OF FINANCIAL LIABILITIES

Financial Instruments at amortised cost

12,566,529	14,952,132
<u>12,566,529</u>	<u>14,952,132</u>

54 EVENTS AFTER THE REPORTING DATE

The Municipality is not aware of any events after the reporting date that can affect the annual financial statements.

55 IN-KIND DONATIONS AND ASSISTANCE

None

56 PRIVATE PUBLIC PARTNERSHIPS

Council has not entered into any private public partnerships during the financial year.

57 COMPARISON WITH THE BUDGET

The comparison of the municipality's actual financial performance with that budgeted, is set out in Annexures "E (1) and E (2)".

58 CONTINGENT LIABILITY

The municipality is not aware of any contingent liabilities.

-

KHAL-MA MUNICIPALITY

NOTES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

					2011 R	2010 R
59	RELATED PARTIES					
	Key Management and Councillors receive and pay for services on the same terms and conditions as other ratepayers / residents.					
59.1	Related Party Transactions					
	Year ended 30 JUNE 2011					
	Councillors					
	Municipal Manager and Section 57 Employees	Rates	Service Charges	Other		Outstanding Balances
		801	19,676	-		20,477
		273	332	-		605
	Year ended 30 JUNE 2010					
	Councillors					
	Municipal Manager and Section 57 Employees	619	15,739	-		15,739
			1,463	-		2,082
	The rates, service charges and other charges are in accordance with approved tariffs that were advertised to the public. No bad debt expenses have been recognised in respect of amounts owed by related parties.					
59.2	Related Party Loans					
	Since 1 July 2004 loans to councillors and senior management employees are not permitted. Loans granted prior to this date, together with the conditions, are disclosed in note 20 to the Annual Financial Statements.					
59.3	Compensation of key management personnel					
	The compensation of key management personnel is set out in note 35 to the Annual Financial Statements.					
59.4	Other related party transactions					
	The following purchases were made during the year where Councillors or staff have an					
	<u>Councillor/Staff Member</u>	<u>Entity</u>				
60	Process to comply fully with the					
	The municipality adopted a phased-in approach in order to comply fully with the implementation of GRAP. The municipality is classified by the National Treasury as a low capacity municipality and must comply with GRAP by 30 June 2012.					
61	Exemptions taken according to those in Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities.					
61.1	GRAP 19 -Provisions, Contingent Liabilities and Contingent Assets					
	The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality measured all provisions, contingent liabilities or contingent assets relating to Property, Plant and Equipment.					
61.2	GRAP 100 -Non-current assets and discontinued operations					
	The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise non-current assets held for sale and discontinued operations relating to Inventories, Investment Properties, Property, Plant and Equipment, Agriculture and Intangible Assets which are not recognised in terms of the transitional provisions relating to those standards:					

61.3 GRAP 16 - Investment Properties

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise all the Investment Properties.

The municipality is currently in a process of identifying all Investment Properties and have it valued in terms of GRAP 16 and it is expected that this process will be completed for inclusion in the 2012 financial statements.

Since the previous reporting date the following Investment Properties were measured at fair value in accordance with GRAP 16 and restated retrospectively:

61.4 GRAP 102 - Intangible Assets

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise or measure all the intangible Assets in accordance with the standard, including the following:

Computer Software:
Intangible assets financed by way of finance leases;
Intangible assets transferred as a result of the transfer of functions; and
Services.

The municipality is currently in a process of identifying all Intangible Assets and have it valued in terms of GRAP 102 and it is expected that this process will be completed for inclusion in the 2012 financial statements. It is possible that certain intangible assets are currently being recognised as Property, Plant and Equipment.

Since the previous reporting date the following Intangible Assets were measured in accordance with GRAP 102 and restated retrospectively:

Computer software;
Accumulated amortisation on computer software
Total not previously recognised now restated retrospectively

61.5 GRAP 12 - Inventories

The municipality opted to take advantage of the transitional provisions as contained in Directive 4 of the Accounting Standards Board, issued in March 2009. The municipality did not recognise the following inventories:

Water:
Land held for sale; and
Other (list).

12. The municipality has identified all inventory which must be measured in terms of GRAP

Since the previous reporting date the following inventories were measured in accordance with GRAP 12 and restated retrospectively:

61.6 GRAP 17 - Property, Plant and Equipment

Exemptions taken according to Directive 4 - Transitional Provisions for Medium and Low Capacity Municipalities. Refer to Note 13

During the current financial year the Municipality experienced severe cash flow problems. The is due to the fact that the Municipality has a very small income base because of the severe number of unemployed households within the region. The Municipality is dependant on grant funding due to the small income base. Should the Equitable Share not be increased substantially in the future, the Municipality will be faced with serious going concern problems.

99

[illegible]

APPENDIX B
KHAI-MIA MUNICIPALITY
SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT AS AT 30 JUNE 2011
GENERAL FINANCE STATISTICS CLASSIFICATION

	Opening Balance	Change in Accounting Policy	Additions	Cost/Revaluation	Under Construction	Write-off	Closing Balance	Opening Balance	Change in Accounting Policy	Additions	Disposals	Write-off	Closing Balance	Carrying Value
Executive & Council	1,084,298	-	352,705	-	-	(132,565)	1,284,439	359,553	-	145,102	-	(118,374)	386,282	898,157
Budget & Treasury Office	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Corporate Services	24,456,919	2,556,244	-	-	-	-	27,013,163	12,026	-	1,336	-	-	13,362	26,999,801
Planning & Development	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Community & Social Services	7,451,287	-	235,134	-	294,580	-	7,981,002	1,604,776	4,247	522,713	-	-	2,131,736	5,849,266
Housing	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Public Safety	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sport & Recreation	6,416,635	-	44,341	-	-	-	6,460,976	572,328	-	141,119	-	-	713,447	5,747,529
Environmental Protection	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Waste Management	116,468	2,661,186	-	-	-	(27,703)	2,749,951	41,527	752,416	387,878	-	(8,168)	1,173,652	1,576,298
Waste Management	3,890,837	0	-	-	-	(295,000)	3,635,947	1,290,718	(268,520)	74,845	-	(295,000)	802,043	2,833,905
Waste Water Management	3,370,015	(1,015,920)	510,289	-	-	(14,290)	2,996,254	1,202,827	(414,202)	99,023	-	(784)	886,864	2,109,390
Road Transport	11,080,261	0	34,883	-	-	(1,677)	19,178,998	7,910,543	(3,154,451)	239,822	-	(1,677)	4,994,237	14,184,759
Water	2,849,483	1,015,922	-	-	-	-	3,905,515	1,837,647	(759,304)	81,109	-	-	1,159,451	2,746,064
Electricity	60,706,203	5,217,432	1,177,352	-	8,576,492	(471,236)	75,206,243	14,831,944	(3,839,814)	1,692,947	-	(424,003)	12,261,074	62,945,169

**APPENDIX C
KHAM-MA MUNICIPALITY
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003**

Grant Description	Balance 1 JULY 2010	Correction of error	Restated balance 1 JULY 2010	Contributions during the year on Investments	Interest	Trade Receivables	Operating Expenditure during the year Transferred to Revenue	Capital Expenditure during the year Transferred to Revenue	VAT Recognised as Income	Repaid to NT	Balance 30 JUNE 2011
TRUST FUNDS	R	R	R	R	R	R	R	R	R	R	R
DWAF (Donor funds)	-	-	26,463	-	-	-	-	23,213	3,250	-	-
Namakwa District Municipality - Repair of Pumps	-	-	-	-	-	-	-	-	-	-	-
Namakwa District Municipality - Job Creation	244,425	-	244,425	651,469	-	-250,000	198,801	160,442	19,664	-	64,318
Namakwa District Municipality - Capital	510,741	-	510,741	9,566,229	-	-	9,566,229	510,289	-	-	452
DPLG - Equitable share	-	-	-	-	-	-	-	-	-	-	-
Finance Management Grant	628,502	-	628,502	3,000,000	-	-	2,438,625	120,309	16,843	-628,502	424,223
Municipal System Improvement Grant	629,941	-	629,941	750,000	-	-	60,935	63,859	8,940	-629,941	616,265
Department Sport Arts and Culture - Library Development	159,724	-	159,724	320,000	-	-	206,959	95,257	7,854	-159,724	9,931
Provincial Infrastructure Grant	6,750	-	6,750	-	-	-	-	-	-	-	6,750
Municipal Infrastructure Grant - National	6,633,471	-	6,633,471	6,301,000	-	-	52,000	7,209,361	996,847	-	4,676,263
COHSTRA: Project NALA	-	-	-	300,000	-	-	7,390	106,050	10,471	-	176,089
Department Environmental Affairs and Conservation	41,764	-	41,764	-	-	-	7,815,540	-	-	-	41,764
Department of Housing and Local Government - Housing	24,751	-	24,751	7,555,093	-	-	263,871	14,508	-	-	-255,332
LGSETA	-	-	-	197,036	-	-	-	-	-	-	24,751
DPLG - EPWP	-	-	-	-	-	-	-	-	-	-	-81,343
DBSA Grant	-	-	-	-	-	-	-	-	-	-	-
Namakwa Diamond Fund Trust	9,181	-	9,181	-	-	-	-	-	-	-	9,181
Total	8,894,364	-	8,894,364	28,667,290	-	(250,000)	20,610,350,37	8,601,269,87	1,063,868,36	-1,418,168,57	8,117,999
PUBLIC CONTRIBUTIONS	-	-	265,511	-	-	-	41,995	218,386	5,129	-	0
Black Mountain - Vedania	-	-	265,511	-	-	-	41,995	218,386	5,129	-	0
Total	-	-	265,511	-	-	-	41,995	218,386	5,129	-	0

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE KHAJ MA MUNICIPALITY**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Khaj Ma Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Khaj Ma Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unauthorised expenditure

9. The municipality incurred unauthorised expenditure of R209 674 due to overspending on municipal votes. This was disclosed in note 49.1 to the financial statements.

Irregular expenditure

10. Irregular expenditure of R7 265 251, as disclosed in note 49.3 to the financial statements, was incurred due to the following reasons:

- Goods and services amounting to R5 609 311 were acquired in contravention of the Supply Chain Management (SCM) Regulations.
- DoRA grants amounting to R1 424 233 were applied to defray operating expenses.
- Payments amounting to R231 706 were made to an employee without a valid employment contract.

Significant uncertainties

11. With reference to note 58 to the financial statements, the municipality did not have a permit for four landfill sites. In terms of the National Environmental Management: Waste Act of South Africa, 2008 (Act No. 59 of 2008), penalties amounting to R10 million per landfill site can be imposed.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Material inconsistencies in other information included in the annual report

13. As the 2010-11 annual report had not been received at the date of this report, a conclusion could not be drawn on the consistency between the financial statements and audit report with other information included in the annual report.

Unaudited supplementary schedules

14. The supplementary information set out in annexures A to C does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages 6 to 8 and material non-compliance with laws and regulations applicable to the municipality.

Predetermined objectives

16. I was unable to conduct the audit of performance against predetermined objectives, as the municipality did not submit its annual performance report, as required by section 46 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and section 121(3)(c) of the MFMA.

Usefulness of information

The following criteria are relevant to the findings below:

- **Measurability:** Indicators are well defined and verifiable, and targets are specific, measurable and time bound.

Audit findings:

Planned and reported measures not verifiable

17. For all programmes, valid performance management processes and systems that produce actual performance against the planned measures did not exist for 100% of the measures.

Compliance with laws and regulations

Annual financial statements, performance report and annual report

18. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements in irregular expenditure, contingent liabilities and depreciation by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

19. The annual performance report for the financial year under review was not prepared as required by section 46 of the MSA and section 121(3)(c) of the MFMA.

Budgets

20. The municipality incurred expenditure that was in excess of the limits of the amounts provided for in the votes in the approved budget, in contravention of section 15 of the MFMA.

Audit committee

21. The municipality did not establish an audit committee, as required by section 166(1) of the MFMA.

Internal audit

22. The internal audit unit did not function as required by section 165(2) of the MFMA, in that:

- the internal audit unit did not prepare a risk-based audit plan and an internal audit programme for the financial year under review
- the internal audit unit did not report to the audit committee on the implementation of the internal audit plan
- the internal audit unit did not advise the accounting officer on matters relating to internal audit, internal controls, accounting procedures and practices, risk and risk management as well as loss control.

23. Contrary to section 62(c) of the MFMA, the municipality did not ensure that a risk assessment process was implemented at the municipality and consequently did not perform a risk assessment.

Expenditure management

24. The accounting officer did not take reasonable steps to prevent unauthorised and irregular expenditure, as required by section 62(1)(d) of the MFMA.

25. Contrary to section 65(2)(e) of the MFMA, the municipality did not pay its suppliers within 30 days from the date of receipt of an invoice.

Procurement and contract management

26. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).

Human resource management

27. The municipal manager did not provide job descriptions for each post on the staff establishment, as required by section 66(1)(b) of the MSA.

Strategic planning and performance management

28. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the Municipal Systems Act and Municipal Planning and Performance Management Regulations 7 and 8.

29. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the Municipal Systems Act and Municipal Planning and Performance Management Regulation 14.

30. The internal audit processes and procedures did not include assessments of the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators as required by Municipal Planning and Performance Management Regulation 14.

31. The internal auditors of the municipality did not audit the performance measurements on a continuous basis as required by Municipal Planning and Performance Management Regulation 14.

32. The municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee as required by Municipal Planning and Performance Management Regulation 14.

INTERNAL CONTROL

33. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

34. The council did not ensure that a performance management framework was adopted and implemented.
35. The accounting officer did not ensure that adequate systems were implemented and monitored to prevent and detect irregular expenditure, unauthorised expenditure and non-compliance with laws and regulations.

Financial and performance management

36. Management did not properly review the financial statements, which resulted in material amendments to the financial statements to ensure its fair presentation.
37. In the absence of appropriate GRAP training to the finance staff, management appointed external service providers to compile the financial statements.
38. The failure of council to adopt a performance management framework resulted in management not submitting an annual performance report.
39. There were deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.

Governance

40. The internal audit unit did not follow a risk-based approach in selecting components to be audited or a systematic method to select samples. The internal audit unit did not perform activities to identify internal control deficiencies and recommend corrective action to management.
41. The accounting officer did not implement appropriate risk management activities to ensure that regular risk assessments, including consideration of IT risks, were conducted and that a risk strategy to address the risks was developed and monitored.
42. The council did not establish an audit committee to enhance oversight over the effectiveness of the internal control environment, due to insufficient funding.

Cluchtor General
Kimberley

30 November 2011



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Joseph
Mayor: A.I. Joesop

[Signature]
Municipal Manager